GNA Axles Limited (Revised)

July 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	125.00 (Reduced from 127.67)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities ^	130.00	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short Term Bank Facilities	0.50	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Short Term Bank Facilities #	-	-	Withdrawn
Total Bank Facilities	**255.50 (₹ Two Hundred Fifty-Five Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1. ^reclassified from long term facility to long term/short term facility

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to these short-term non-fund-based facilities as these have not been renewed by the banks as the company didn't use the same, and there was no amount outstanding against it.

Detailed rationale and key rating drivers

The revision in rating assigned to short-term bank facilities of GNA Axles Limited (GNA) considers improvement in the company's liquidity profile as reflected by moderation in fund-based working capital limit utilization supported by better profitability and enhancement in limits; along with expectation of healthy free cash flow generation in short to medium term in the absence of any major capex plans and relatively low debt repayment obligations.

The ratings continue to derive strength from the extensive experience of GNA's promoters and management, the company's long track record of operations in the auto component industry, its diversified revenue stream across product segments and geographies with long and established relationship with reputed customers. The ratings also consider GNA's growing scale of operations, steady margins and its comfortable financial risk profile marked by low gearing and comfortable debt coverage metrics.

The ratings, however, continue to remain constrained by the company's large working capital requirements, its inherently concentrated customer base, susceptibility of margins to volatility in raw material prices and its relatively moderate scale of operations in the cyclical and competitive auto component industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Substantial growth in scale of operations with ROCE above 20% on a sustained basis.
- Sustained improvement in total debt to PBILDT below unity and further strengthening of liquidity position.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Sustained decline in its total operating income (TOI) and PBILDT margins leading to ROCE lower than 15%
- Any major debt funded capex resulting in deterioration of overall gearing to above 1x

Detailed description of the key rating drivers

Key rating strengths

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Extensive experience of promoters/management and long track record of operations: GNA was promoted by Late Mr. Rachhpall Singh and his brother Mr. Gursaran Singh, the latter being the current managing director of the company with around five decades of industry experience. His son, Mr. Ranbir Singh, and other family members are also involved in the day-to-day business activities of the company. The directors of the company are assisted by a team of professionals who are highly experienced in their respective domains. GNA group which also includes GNA Gears Limited was established in 1946 and therefore has a very long track record of operations.

Diversified revenue stream across product segments and geographies: The company supplies its products to varied segments of the automotive industry, including commercial vehicles (CV or the on-highway segment), tractors, farm equipment and earth moving equipment (all three being part of the off-road segment). Furthermore, the company derives significant income from export of its products to USA, Europe, Asia Pacific (Japan, China etc.), Mexico, Brazil, etc., with exports constituting around 60% of its TOI in FY22 (refers to the period April 1 to March 31) [around 60% in FY21]. The company is a tier-1 vendor for its supplies in domestic off-road segment while in the exports markets, it supplies axles and spindles to larger and more established tier-1 vendors.

Long and established relationship with the customers: The GNA group has been operating in the auto component industry since 1946 and therefore it has built time-tested relationship with customers – with some ever since the commencement of its operations. Besides, it has been supplying to some of its export customers since the year 2000. GNA markets its products through the common group marketing network that caters a whole range of products including axles, gears and shafts under one roof. The long and established relationship with customers provide revenue stability to the company, subject to overall industry demand scenario.

Reputed; albeit concentrated customer base: While GNA faces customer concentration with its top-5 and top-10 customers accounting for around 70% and around 82% of its total gross sales in FY22, the risk is mitigated to a large extent as the top revenue contributors are well-established players and enjoy strong position in the industry. GNA is the main supplier of axle shafts to most of the OEMs that it supplies to, and by virtue of its long-standing relationships with the customers, the company has a strong market position. Furthermore, for some of its export customers, the supplies are made by GNA for their plants located in various countries, thereby mitigating the risk arising from slowdown in one geographical location.

Growing scale of operations with steady margins: During FY22, the company achieved TOI of Rs. 1270.47 crore compared to a TOI of Rs. 889.50 crore in FY21. The PBILDT margin continued to remain in comfortable range; albeit moderated to 14.24% in FY22 (PY: 16.17%), mainly due to higher raw material costs incurred in H2FY22. Consequently, the PAT margins also declined to 6.96% from 7.94% in FY21. Going forward, CARE Ratings believes that the company has ample capacities and business visibility to grow its revenue and report range bound margins in the medium term on the back of ongoing cyclical recovery in automobile industry.

Comfortable financial risk profile: The capital structure of the company remained comfortable with long-term debt-to-equity and overall gearing ratios of 0.10x and 0.37x, as on March 31, 2022, respectively (PY: 0.20x and 0.38x, respectively). The same improved mainly on account of scheduled term debt repayments along with accretion of profits to the net worth. The company has low reliance on working capital borrowings as it only avails the pre-shipment credit for exports and substantial portion of its inherently high working capital requirements are funded by internal accruals. The interest coverage ratio remained healthy at 16.12x in FY22 (PY: 16.83x) due to healthy profitability and low interest costs on foreign currency borrowings. The company's total debt to PBILDT improved and stood comfortable at 1.23x as on March 21, 2022 (PY: 1.37x).

Key rating weaknesses

Susceptibility of margins to volatility in raw material prices: The operations of the company are raw material intensive in nature with the raw material cost constituting around 59% of the gross sales in FY22. With global steel prices highly volatile in nature, the margins of GNA are exposed to raw material fluctuation risk. Given large variety of products being manufactured for different types of customers, which necessitates holding of significant inventory (average inventory days of 62 days as on March 31, 2022), the margins are exposed to any adverse movement in the raw material prices. However, despite the risk associated with raw material price fluctuation, the PBILDT margins of the company have remained steady in the past as it is largely able to pass on the higher input costs on a quarterly basis. Moreover, foreign currency risks on export realizations are broadly mitigated due to usage of packing credit in foreign currency and historically depreciating rupee which benefits the exporters although the company doesn't have any formal hedging policy to manage forex risks.

Large working capital requirements: Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The company maintains inventory of around 2 to 2.5 months with large product range (axle shafts and spindles ranging from 2 kg to 150 kg). The average debtor days usually remain elongated as the company has major dependence on export customers for sales having credit period of close to 4-5 months as its customers have higher bargaining power. The company's aggregate operating cycle, though improved, remained elongated at 123 days in FY22 (PY: 135 days) as the company reduced its creditor days substantially from 95 days in FY21 to 71 days in FY22 thereby partially offsetting the impact of improved collections and lower inventories.

Exposure to cyclicality in automobile industry: Automotive industry is subjected to cyclical variations in performance and is very sensitive to demand and government policy changes. GNA's performance remains closely aligned to the performance of key customers and in-turn exposed to cyclical demand patterns inherent to the automobile industry and ability of the OEMs and their tier-1 vendors to sustain their operating performance. Following the economic fallout led by the Covid-19 pandemic, domestic as well as global auto sales were impacted. Moreover, recent supply chain constraints such as the semi-conductor shortage have again resulted in temporary hiccups. Furthermore, GNA has a relatively moderate scale of operations in the overall auto component industry. However, both commercial and passenger vehicles segments have reported strong rebound in recent months the sustenance of which shall remain crucial for players like GNA.

Liquidity: Adequate

GNA has adequate liquidity as seen in the sufficient cushion in accruals against debt repayment obligations of about Rs.15 crore in FY23. The company has a comfortable current ratio of 1.79x as on March 31, 2022 (PY: 1.77x) and its fund-based limits are utilized to the extent of 68% for trailing 12 months ended April 2022 (improved from around 98% utilisation in the preceding 12 months period). The company doesn't have any major capex plans barring routine capex in the range of Rs.20 crore to Rs.25 crore which shall be funded through the internal accruals; thus, it is expected to generate healthy free cash flows in the short to medium term.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company

GNA, a Jalandhar based public limited company listed on BSE and NSE, was incorporated in the year 1993. GNA is the flagship company of the GNA group, set-up in the year 1946 for manufacturing of auto components for commercial vehicles, tractors and off-road equipment. The company is engaged in the business of manufacturing and supplying axle shafts and spindles (ranging from 2 kg to 150 kg) to original equipment manufacturers (OEMs) and Tier-1 suppliers. GNA has its manufacturing facilities located in Hoshiarpur, Punjab with an installed capacity of around 6 million pieces per annum, as on March 31, 2022. Apart from catering to the domestic customers, GNA also exports its products to USA, Brazil, Sweden, Mexico, Italy, Spain, etc., with exports constituting around 60% of its TOI in FY22 (around 56% in FY21).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23/H1FY23/9MFY23 (UA)
Total operating income	889.59	1,270.47	NA
PBILDT	143.83	180.97	NA
PAT	70.65	88.36	NA
Overall gearing (times)	0.38	0.37	NA
Interest coverage (times)	16.83	16.12	NA

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE A+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A1+
Term Loan-Long Term		-	-	2026	85.00	CARE A+; Stable
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	130.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	40.00	CARE A+; Stable	-	1)CARE A+; Stable (22-Jun-21)	1)CARE A+; Negative (04-Aug-20)	1)CARE A+; Stable (05-Jul-19)
2	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A1+	-	1)CARE A1 (22-Jun-21)	1)CARE A1 (04-Aug-20)	1)CARE A1 (05-Jul-19)
3	Term Loan-Long Term	LT	85.00	CARE A+; Stable	-	1)CARE A+; Stable (22-Jun-21)	1)CARE A+; Negative (04-Aug-20)	1)CARE A+; Stable (05-Jul-19)
4	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	130.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable (22-Jun-21)	1)CARE A+; Negative (04-Aug-20)	1)CARE A+; Stable (05-Jul-19)
5	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A1 (22-Jun-21)	1)CARE A1 (04-Aug-20)	1)CARE A1 (05-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	**NA**
I.	
Ii.	
B. Non-financial covenants	**NA**
I.	
Ii.	

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple
4	Term Loan-Long Term	Simple
5	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ajay Kumar Dhaka
Phone: 011-45333218
E-mail: ajay.dhaka@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: 011-45333200
E-mail: swati.agrwal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in