# GNA Axles Limited

July 07,2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 58.77 (reduced from 125.00) | CARE A+; Stable | Reaffirmed |
| Long-term/Short-term bank facilities | 184.00 (enhanced from 130.00) | CARE A+; Stable/CARE A1+ | Reaffirmed |
| Short-term bank facilities | 0.50 | CARE A1+ | Reaffirmed |

Details of instruments/facilities in Annexure-1

**Rationale and Key Rating Drivers**

The ratings assigned to the bank facilities of GNA Axles Limited (GNA) 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 factor in GNA's growing scale of operations, steady margins and its comfortable financial risk profile marked by low overall 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: Factors likely to lead to rating actions**

**Positive Factors**

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

**Negative Factors**

- 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 0.50x.

**Analytical approach:** Standalone

**Outlook: Stable**

The stable outlook reflects that GNA is expected to maintain its operating risk profile with its established presence in the auto ancillary industry supported by long and established relationship with its customer base. The solvency and liquidity position of the company is also expected to remain stable in the medium term.

**Detailed description of the key rating drivers:**

**Key Strengths**

**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 53% of its TOI in FY23 (refers to the period April 1 to March 31) [around 60% in FY22]. 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.

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

**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 provides 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 64% and around 80% of its total gross sales in FY23, 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 FY23, the company achieved TOI of ₹1582.93 crore compared to a TOI of ₹1270.47 crore in FY22 with growth in sales volume as well as realisations. The PBILDT margin continued to remain stable at 14.70% in FY23 (PY: 14.24%). With lower capital charge, the PAT margins improved to 8.22% in FY23 from 6.96% in FY22. 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.

**Comfortable financial risk profile:** The capital structure of the company remained comfortable with long-term debt-to equity and overall gearing ratios of 0.07x and 0.28x, as on March 31, 2023, respectively (PY: 0.10x and 0.37x, respectively). The same improved mainly on account of reduction in debt along with accretion of profits to the networth. 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 21.22x in FY23 (PY: 16.12x) due to healthy profitability and low interest costs on foreign currency borrowings. The company's total debt to PBILDT improved and stood comfortable at 0.87x as on March 21, 2023 (PY: 1.23x).

**Stable Industry Prospects:** As the pent-up demand levels off, the Commercial Vehicle (CV) industry is likely to record moderate volume growth of around 8-10% in FY24 amid increased government thrust on infrastructure spending despite expected muted export volume growth. Segment-wise, medium, and heavy commercial vehicles (MHCV) are expected to grow by 10-12% in FY24 driven by the mandatory scrapping of government vehicles boosting healthy replacement demand, increasing freight movement amid continuing strong infrastructure push by the Government and increasing housing, construction and mining activities, while light commercial vehicles (LCV) are likely to grow by 6-8% aided by last-mile connectivity demand boosting e-commerce activities.
A projected slowdown in automobile sales in the major markets such as the United States and Europe is expected to impact India's automobile ancillary exports during the current year. Higher interest rates, supply chain problems, geopolitical tensions and recessionary fears are expected to be the major headwinds for automobile sales in these markets.

**Key Weaknesses**
**Susceptibility of margins to volatility in raw material prices and exchange rate:** The operations of the company are raw material intensive in nature with the raw material cost constituting around 66% of the gross sales in FY23. However, in-spite of high volatility in global steel prices, GNA has been able to maintain its profitability margins in a range as it has largely been able to pass on higher input costs to its customer on a regular basis till now. 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 117 days in FY23 (PY: 123 days) as the company reduced its creditor days substantially from 71 days in FY22 to 57 days in FY23 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 in past. Subsequently supply chain constraints such as the semi-conductor shortage resulted in temporary hiccups. Furthermore, GNA has a relatively moderate scale of operations in the overall auto component industry.

## **Liquidity:** Adequate

GNA has adequate liquidity with sufficient cushion in cash accruals expected against debt repayment obligations of about ₹17.28 crore in FY23. The company has a comfortable current ratio of 1.93x as on March 31, 2023 (PY: 1.79x) and its fund-based limits are utilized to the extent of 66% for trailing 12 months ended April 2023. The company doesn't have any major capex plans barring routine capex in next three years which shall be funded through the internal accruals. It is expected to generate healthy free cash flows in the short to medium term.

## Environment, social, and governance (ESG) risks:

GNA is not directly subject to emission control norms for its products, though its end customer base comprising automotive OEMs are subject to stringent management of the same and any non-adherence may impact GNA indirectly. As regards its own processes, the company has been making efforts to reduce wastages and emissions in the manufacturing processes. It spent ₹1.04 crore on corporate social responsibility (CSR) initiatives in FY22. 50% of the members of the board are independent directors.

**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 and industry**

**Industry Classification**

| Macro-Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer Discretionary | Automobile and Auto Components | Auto Components | Auto Components & Equipments |

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, 2023. Apart from catering to the domestic customers, GNA also exports its products to USA, Brazil, Sweden, Mexico, Italy, Spain, etc.

| Brief Financials (₹ crore) | FY22 (A) | FY23 (A) |
|---|---:|---:|
| Total operating income | 1,270.47 | 1,582.93 |
| PBILDT | 180.97 | 232.70 |
| PAT | 88.79 | 130.23 |
| Overall gearing (times) | 0.37 | 0.28 |
| Interest coverage (times) | 16.12 | 21.22 |

A: Audited; Financials are reclassified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

**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 the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 15.00 | CARE A+; Stable |
| Fund-based - LT/ ST-Packing Credit in Foreign Currency | | - | - | - | 184.00 | CARE A+; Stable / CARE A1+ |
| Non-fund-based - ST-Bank Guarantee | | - | - | - | 0.50 | CARE A1+ |
| Term Loan-Long Term | | - | - | Dec-2027 | 43.77 | CARE A+; Stable |

**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 2023-2024 | 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 |
| 1 | Fund-based - LT-Cash Credit | LT | 15.00 | CARE A+; Stable | - | 1)CARE A+; Stable (06-Jul-22) | 1)CARE A+; Stable (22-Jun-21) | 1)CARE A+; Negative (04-Aug-20) |
| 2 | Non-fund-based - ST-Bank Guarantee | ST | 0.50 | CARE A1+ | - | 1)CARE A1+ (06-Jul-22) | 1)CARE A1 (22-Jun-21) | 1)CARE A1 (04-Aug-20) |
| 3 | Term Loan-Long Term | LT | 43.77 | CARE A+; Stable | - | 1)CARE A+; Stable (06-Jul-22) | 1)CARE A+; Stable (22-Jun-21) | 1)CARE A+; Negative (04-Aug-20) |
| 4 | Fund-based - LT/ ST-Packing Credit in Foreign Currency | LT/ST* | 184.00 | CARE A+; Stable / CARE A1+ | - | 1)CARE A+; Stable / CARE A1+ (06-Jul-22) | 1)CARE A+; Stable (22-Jun-21) | 1)CARE A+; Negative (04-Aug-20) |
| 5 | Non-fund-based - ST-Letter of credit | ST | - | - | - | 1)Withdrawn (06-Jul-22) | 1)CARE A1 | 1)CARE A1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | (22-Jun-21) | (04-Aug-20) |

*Long term/short term

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**

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

**Note on the 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.


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