

GNA Axles Limited

June 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	-	-	Reaffirmed at CARE A+; Stable / CARE A1+ and Withdrawn
Long-term bank facilities	-	-	Reaffirmed at CARE A+; Stable and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A1+ and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE A+; Stable/CARE A1+' assigned to bank facilities of GNA Axles Limited (GNA) with immediate effect. This action has been taken at the request of GNA and 'No Objection Certificate' received from the banks that have extended facilities rated by CARE Ratings.

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, and its diversified revenue stream across product segments and geographies with long and established relationship with reputed customers. 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. However, ratings continue to remain constrained by the company's large working capital requirements, its inherently concentrated customer base, margins susceptible to volatility in raw material prices, and its relatively moderate scale of operations in the cyclical and competitive auto component industry.

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 company's solvency and liquidity position is also expected to remain stable in the medium term.

Detailed description of key rating drivers:

Key strengths

Extensive experience of promoters/management and long track record of operations

GNA was promoted by Late Rachhpall Singh and his brother Gursaran Singh, the latter being the company's current managing director with around five decades of industry experience. His son, Ranbir Singh, and other family members are also involved in the company's day-to-day business activities. The company directors are assisted by a team of professionals who are highly experienced in their respective domains. Being established in 1946, the GNA group, which also includes GNA Gears Limited, has a 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). The company derives significant income from export of its products to the US, Europe, Asia Pacific (Japan and China among others), Mexico, Brazil, and so forth, with exports constituting around 53% of its total operating income (TOI) in FY23 (refers to 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.

Long and established relationship with customers

The GNA group has been operating in the auto component industry since 1946, thus having 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 2000. GNA markets its products through the common group marketing network catering 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.

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

Reputed, though 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 largely mitigated 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 original equipment manufacturers (OEMs) that it supplies to, and by virtue of its long-standing relationships with the customers, the company has a strong market position. For some of its export customers, the supplies are made by GNA for their plants in various countries, thereby mitigating the risk arising from slowdown in one geographical location.

Comfortable scale of operations with largely steady margins

In FY24, the company achieved TOI of ₹1,508.67 crore compared to a TOI of ₹1,582.93 crore in FY23 driven by moderation in price realisations owing to weak tractor sales in the domestic market. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin marginally declined to 13.24% in FY24 (PY: 14.70%). The profit after tax (PAT) margins declined to 6.63% in FY24 from 8.22% in FY23.

Comfortable financial risk profile

The company's capital structure remained comfortable with long-term debt-to equity and overall gearing ratios of 0.04x and 0.24x, as on March 31, 2024, respectively (PY: 0.07x and 0.28x, respectively). The same improved mainly due to reduction in debt and 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 17.3x in FY24 (PY: 21.22x) due to healthy profitability and low interest costs on foreign currency borrowings. The company's total debt to PBILDT stood comfortable at 0.95 as on March 21, 2024 (PY: 0.87x).

Liquidity: Adequate

GNA has adequate liquidity with sufficient cushion in cash accruals (₹152.58 crore in FY24) against minimal debt repayment obligations in FY25. The company has a comfortable current ratio of 2.16x as on March 31, 2024 (PY: 1.93x) and its fund-based limits are utilised to the extent of around 79% for trailing 12 months ended April 2024. CARE Ratings understands, the company does not have any major capex plans barring routine capex in next three years which is expected to be funded through the internal accruals. It is expected to generate healthy free cash flows in the short to medium term.

Key weaknesses

Margins susceptible to volatility in raw material prices and exchange rate

The company's operations are raw material intensive in nature with the raw material cost constituting around 66% of the gross sales in FY24. However, despite 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 regularly till now. Moreover, foreign currency risks on export realisations are broadly mitigated due to usage of packing credit in foreign currency and historically depreciating rupee which benefits the exporters, although the company does not have any formal hedging policy to manage forex risks.

Large working capital requirements

Being in auto ancillary industry, the company's operations 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 deteriorated and remained elongated at 132 days in FY24 (PY: 117 days) as the collection period remained elongated at 135 days in FY24 as compared to 119 days in FY23.

Exposure to cyclicalities in automobile industry

Automotive industry is subject to cyclical variations in performance and is 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 and global auto sales were impacted in the past. Subsequently, supply chain constraints such as the semi-conductor shortage resulted in temporary hiccups. GNA has a relatively moderate scale of operations in the overall auto component industry.

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 expended ₹1.63 crore on corporate social responsibility (CSR) initiatives in FY23. More than 50% of the board members are independent directors.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

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 is a Jalandhar-based public limited company listed on BSE and NSE. GNA is the flagship company of the GNA group, set-up in 1946 for manufacturing of auto components for commercial vehicles, tractors, and off-road equipment. The company is engaged in manufacturing and supplying axle shafts and spindles (ranging from 2 kg to 150 kg) to OEMs and Tier-1 suppliers. GNA has its manufacturing facilities in Hoshiarpur, Punjab, with an installed capacity of around six 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, and Spain, among others.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)
Total operating income	1,582.93	1,508.67
PBILDT	232.70	199.72
PAT	130.12	100.02
Overall gearing (times)	0.28	0.24
Interest coverage (times)	21.22	17.30

A: Audited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	-	Withdrawn
Fund-based - LT/ ST-Packing credit in foreign currency		-	-	-	-	Withdrawn
Non-fund-based -ST-Bank guarantee		-	-	-	-	Withdrawn
Term loan-Long term		-	-	31-12-2027	-	Withdrawn

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	-	-	-	1)CARE A+; Stable (07-Jul-23)	1)CARE A+; Stable (06-Jul-22)	1)CARE A+; Stable (22-Jun-21)
2	Non-fund-based - ST-Bank guarantee	ST	-	-	-	1)CARE A1+ (07-Jul-23)	1)CARE A1+ (06-Jul-22)	1)CARE A1 (22-Jun-21)
3	Term loan-Long term	LT	-	-	-	1)CARE A+; Stable (07-Jul-23)	1)CARE A+; Stable (06-Jul-22)	1)CARE A+; Stable (22-Jun-21)
4	Fund-based - LT/ ST-Packing credit in foreign currency	LT/ST	-	-	-	1)CARE A+; Stable / CARE A1+ (07-Jul-23)	1)CARE A+; Stable / CARE A1+ (06-Jul-22)	1)CARE A+; Stable (22-Jun-21)
5	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (06-Jul-22)	1)CARE A1 (22-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of 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 detailsTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of 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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About us:

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