GNA Axles Limited

June 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	257.67 (Enhanced from 244.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	5.50	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**263.17 (Rs. Two Hundred Sixty-Three Crore and Seventeen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GNA Axles Limited (GAL) continue to derive strength from the long track record of operations alongside the company's experienced management team, its diversified revenue stream catering to various segment types and geographies, its long and established relationship with the customers, reputed customer base and comfortable financial risk profile.

The ratings are, however, constrained by the company's exposure to customer concentration risk, susceptibility of margins to volatility in raw material prices and cyclical nature of the auto component industry.

Rating Sensitivities

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

- Sustained improvement in scale of operations to more than Rs.1,200 crore
- Sustained improvement in PBILDT margin to over 16% in the projected years

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

- PBILDT margin remaining at around 10% on a sustained basis
- Any major debt funded capex resulting in deterioration of capital structure to above 1x

Outlook: Stable

The revision in the outlook from Negative to Stable considers the resumption in the sales of the company in the recent quarters alongside the better financial performance in terms of scale of operations and profitability in FY21 than estimated.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations with an experienced management team

GAL is promoted by Mr. Rachhpall Singh, Executive Chairman, and his brother, Mr. Gursaran Singh, Managing Director who have around five decades of industry experience. Other family members of the promoters 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.

Diversified revenue stream catering to various segment types and geographies

GAL supplies its products to varied segments including commercial vehicles (CV or the on-highway segment), tractors, farm equipment and earth moving equipment (all three part of the off-road segment). Furthermore, in order to mitigate the geographical concentration risk, the company derives significant income from export of its products to USA, Europe, Asia-Pacific, Mexico, Brazil, etc., with exports constituting around 56% of the total income in FY21 (around 65% in FY20). On account of the slowdown in demand in the domestic market around Q4FY19, the company increased its focus in the export market, FY20 onwards, thereby leading to higher quantity sold in the export market.

Long and established relationship with the customers

The GNA group has been operating in the auto component industry since 1946, and has built time-tested relationships 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. GAL 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 relationships with the customers provide revenue stability to the company.

Reputed customer base mitigating customer concentration risk
While GAL faces customer concentration with its top-5 and top-10 customers accounting for around 68% and around 82% of the total gross sales in FY21 respectively [around 72% (from top-5 customers) and around 84% (from top-10 customers) in FY20], the risk is mitigated to some extent as the top revenue contributors are well-established players and enjoy strong position in the industry. GAL is the main supplier of axle shafts to most of the OEMs (especially domestic) 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 GAL for their plants located in various countries, thereby mitigating the risk arising from slowdown in one geographical location.

Comfortable financial risk profile
In FY21, the company achieved total operating income of Rs.891.06 cr. compared to a total operating income of Rs.910.29 crore in FY20. While the demand remained low in H1FY21 due to COVID-19 related factors, the performance improved in the latter half of the year with the gradual opening up of the economies and increasing auto sales, both in the domestic as well as export markets.
The PBILDT margin continued to remain at a comfortable level and improved further on a y-o-y basis to 16.31% in FY21 (PY: 13.82%), mainly due to better sales realization on the products, alongside various cost optimization measures undertaken by the company during FY21. Besides, the PAT margins also improved to 7.93% from 5.75% in FY20.
The capital structure of the company remained comfortable with long-term debt-to-equity and overall gearing ratios of 0.20x and 0.38x, as on March 31, 2021, respectively (PY: 0.31x and 0.43x, respectively). The same improved mainly on account of scheduled term debt repayments along with accretion of profits to the net worth.
The debt coverage indicators marked by total debt to GCA ratio and interest coverage ratio remained comfortable at 1.94x, as on March 31, 2021 and 17.02x in FY21, respectively (PY: 2.11x and 9.25x, respectively).

Key Rating Weaknesses
Susceptibility of margins to volatility in raw material prices and foreign exchange risk
The operations of the company are raw material intensive in nature with the raw material cost constituting around 58% of the gross sales in FY21. With steel prices highly volatile in nature, the margins of GAL 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 78 days as on March 31, 2021), 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 comfortable in the past.
Furthermore, GAL derives a substantial portion of its income from exports (around 56% of its total income in FY21) while the raw material procurement is done completely from the domestic market, thereby exposing the company to risks associated with adverse fluctuations in the foreign currency. However, the forex risk is mitigated to some extent as a part of the working capital limit is availed in foreign currency thereby providing hedge to the company's foreign currency exposure.
Industry Prospects
The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of many players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.
The automobile industry has shown a quick recovery starting from the middle of FY21. Tractors sales were unaffected through the year and in fact, FY21 was one of the best years for this segment. The passenger vehicles domestic wholesales reached nearly same levels as last year (-2.3% YoY), while two-wheelers managed to clock around 85% sales of last year. The commercial vehicles segment, which was the first to be affected by lockdowns saw Q1-FY21 as a complete washout by witnessing just 30,000 units of domestic sales. However, as the economy opened up, their sales grew and in the last quarter it clocked 2.1 lakh units of sales, the highest since Q4-FY19. On a cumulative basis, commercial vehicles segment reached ~80% of last year's volumes. The three-wheelers segment did not see much green shoots due to the minimal demand from the passenger carrier and goods carrier segments.
<u>Liquidity</u>: Adequate
GAL has adequate liquidity as seen in the sufficient cushion in accruals and moderate cash balance of Rs.19.49 crore as on March 31, 2021 against repayment obligations of Rs. 25.29 crore in FY22. Its bank limits are utilized to the extent of 98% and has sought enhancement in bank lines, supported by above unity current ratio of 1.77x in FY21 (PY: 1.85x).
Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The company must maintain inventory of around 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 months. However, the same stretched further to 135 days as on March 31, 2021 (PY: 120 days), mainly due to the lockdowns imposed in India and abroad which led to relaxed payment terms with the customers. Furthermore, the creditor days stood at 95 days as on March 31, 2021 (PY: 81 days).

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short-term Instruments
CARE's methodology for auto ancillary companies
CARE's methodology for financial ratios (Non-Financial Sector)
Liquidity analysis-Non-financial sector entities

About the Company
GNA Axles Limited (GAL) is a Jalandhar based, public limited company, listed on BSE and NSE, was incorporated in the year 1993. GAL 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. GAL has its manufacturing facilities located in Hoshiarpur, Punjab with an installed capacity of ~6 million pieces per annum, as on March 31, 2021. Apart from catering to the domestic customers, GAL also exports its products to USA, Brazil, Sweden, Mexico, Italy, Spain, etc., with exports constituting ~56% of the income in FY21 (~65% in FY20).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	910.29	891.06
PBILDT	125.77	145.30
PAT	52.32	70.79
Overall gearing (times)	0.43	0.38
Interest coverage (times)	9.25	17.01

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE A+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A1
Term Loan-Long Term	-	-	2026	87.67	CARE A+; Stable
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	130.00	CARE A+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	5.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE A+; Stable	-	1)CARE A+; Negative (04-Aug-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A; Positive (03-Jan-19) 2)CARE A; Positive (26-Jul-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1	-	1)CARE A1 (04-Aug-20)	1)CARE A1 (05-Jul-19)	1)CARE A1 (03-Jan-19) 2)CARE A1 (26-Jul-18)
3.	Term Loan-Long Term	LT	87.67	CARE A+; Stable	-	1)CARE A+; Negative (04-Aug-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A; Positive (03-Jan-19) 2)CARE A; Positive (26-Jul-18)
4.	Fund-based - LT-Packing Credit in Foregin Currency	LT	130.00	CARE A+; Stable	-	1)CARE A+; Negative (04-Aug-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A; Positive (03-Jan-19) 2)CARE A; Positive (26-Jul-18)
5.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A1	-	1)CARE A1 (04-Aug-20)	1)CARE A1 (05-Jul-19)	1)CARE A1 (03-Jan-19) 2)CARE A1 (26-Jul-18)

Annexure 3: Complexity level of various instruments rated for this company

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

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

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