

GS Auto International Limited

November 24, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	39.47	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5.50	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	44.97 (₹ Forty-Four Crore and Ninety-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The credit profile of GS Auto International Limited (GSAIL) is primarily constrained on account of modest scale of operations coupled with net losses, weak debt coverage indicators and elongated operating cycle. Further, the ratings are also constrained by risk associated with raw material price volatility risk, cyclical nature of the industry and its presence in a highly competitive auto component industry severely impacted by the slowdown. The credit profile derives comfort from experienced promoters coupled with long track record of operations, association with reputed customer base and moderate capital structure.

Rating sensitivities

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

- Improvement in scale of operations to around Rs.180.00 crore and above over the medium term on sustained basis.
- Improvement in Gross cash accruals of Rs 5.00 crores
- Improvement in the capital structure as marked by overall gearing ratio of below 1.00x.

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

- Deterioration in profitability margins of the company as marked by PBILDT margin below Rs 3.00 crores
- Invocation of corporate guarantee extended to group concerns.
- Continued elongation in the operating cycle beyond 190 days

Detailed description of the key rating drivers

Key rating weaknesses

Raw material price volatility risk: The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of steel and allied products as their prices fluctuates rapidly due to demand supply gap. GSAIL procure materials such as mild steel, EN steel, aluminum scrap, copper scrap, etc. constitute a major component of the raw material i.e., around 50% of the total cost of production for the last 3 years (FY20-FY22), hence any volatility in their prices of raw materials has a direct impact on the profitability margins of the company.

Cyclical nature of industry: GSAIL fortunes are linked to those of the automobile industry, which is cyclical in nature. The demand for automobiles has a significant impact on the demand and prices of the products manufactured by the company. A fall in the demand and/or prices would adversely impact the financial performance of the company

Presence in a highly competitive auto component industry: GSAIL operates in a highly competitive industry wherein there is presence of many players in the unorganized and organized sectors. Furthermore, the auto component industry is largely unorganized in structure, consisting of around 45-50% of the overall industry size. The unorganized segment mainly caters to the replacement market and to tier II and III suppliers. The organized segment majorly caters to the OEM segment.

Modest scale of operations couples with net losses: GSAIL's scale of operations stood moderate though improved as marked by total operating income of Rs 1000.17 crores and gross cash accruals of Rs 1.20 crores respectively, during FY22 (FY refers to the period April 1 to March 31) as against Rs 77.52 crore and Rs 0.26 crores respectively, during FY21. Nevertheless, the scale remains modest; it limits the company's financial flexibility in times of stress. GSAIL's has incurred net losses of Rs (3.13) crore in FY22. The same was mainly on account of the high prices of raw material which the company is unable to pass on entirely to its customers. Further, the company has achieved total operating income of Rs 59.28 crores during H1FY23 (refers to the period from April 1,2021 to September 30,2021; based on provisional results) and is expecting to clocked revenue of Rs 120.00 crore in FY23 backed by orders in hand.

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

Weak debt coverage indicators: The debt coverage indicators of the company stood weak as marked by interest coverage ratio and total debt to GCA of 2.14x and 30.70x respectively for FY22 as against 1.04x and 137.73x respectively for FY21. During H1FY23 the interest coverage stood at 1.12x. The interest coverage is expected to remain weak on account of high interest over the medium term as envisaged.

Elongated operating cycle: The operations of the company is working capital intensive as marked by elongated operating cycle of 130 days for FY22 (PY:157 days). Owing to large product portfolio (different type of designs, sizes etc), the company is required to maintain adequate inventory at each processing stage for smooth running of its production processes and to ensure prompt delivery to its customers resulting in an average inventory holding period of around 116 days for FY21. The company has to offer liberal credit period to its customers as majority of them are large sized players which possess high bargaining power as compared to GSAIL resulting in an average collection period of 68 days for FY22. The company receives an average credit period of around 2-3 months from its suppliers resulting in an average creditor's period of 54 days for FY22. The working capital borrowings of the company remained 85% utilized during the past 12 months ending October 2022.

Key rating strengths

Experienced promoters coupled with long track record of operations: The operations of GSAIL is currently being managed by Mr. Jasbir Singh Ryait, Mr Surinder Singh, Ms Amarjit Kaur Ryait, Mrs Dalvinder Kaur Ryait and Mr. Harkirat Singh Ryait. Mr. Jasbir Singh Ryait (Chairman & Managing Director), is B.E. (Mechanical Engineering) qualified and holds vast accumulated experience of nearly three decades in auto industry through his association with this entity. Mr. Surinder Singh (Managing Director) is graduate and holds vast accumulated experience of nearly three decades in auto industry through his association with this entity. They are ably supported by other directors of the company in managing day-to-day operations of the company. GSAIL has a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Association with reputed customer base: GS Auto International Limited has been operational for more than eight decades in the industry and has been able to establish healthy relationships with its customers. Association with reputed customers coupled with repeated orders enhances the image of the company in the market regarding product quality. Over these years the company has established business relationship with reputed companies like Tata Motors Limited (rated 'CARE AA-; Stable/CARE A1+'), Ashok Leyland Limited, Maruti Suzuki Limited, SML Isuzu Limited, VE Commercial Vehicles Limited, etc. and its vendors.

Moderate capital structure: As on March 31,2022 the debt profile of the company consists of term loan of Rs 20.07 crores, vehicle loan of Rs 1.18 crore, financial lease of Rs 0.16 crore and working capital borrowings of Rs 15.51 crores against the net worth base of Rs 24.11 crore. The working capital borrowings reduces from Rs 27.25 crore to Rs 16.50 crores and are converted into working capital demand loans. The capital structure of the company stood moderate as over the past there balance sheet dates ending March 20' to March 22' on account of high debt levels against the moderate net worth base. Adjusted overall gearing stood at 1.74x as on March 31,2022 showing marginal deterioration from 1.53x as on March 31,2021 mainly on account of high debt levels coupled with moderation in net worth due to losses incurred. The overall gearing as envisaged is expected to remain moderate over the medium term on account of high reliance on external debt.

Liquidity: Stretched-The liquidity position of the company remained stretched characterized by tightly matched accruals along with the net losses incurred vis-à-vis repayment obligations. The company has reported gross cash accruals to the extent of Rs.1.20 crore during FY22, Rs.0.22 crore during H1FY23 and is expected to generate envisaged GCA of Rs.1.60 crore for FY23 against repayment obligations of Rs.1.49 crore. Further, the working capital limits are 89% utilized for the past 12 month's period ending October 2022. However, the company has moderate unencumbered cash & bank balances which stood at Rs.1.15 crore as on March 31, 2022.

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](#)

About the company

GS Auto International Limited was initially established as a proprietorship firm in the year 1938. Later in 1973, it gets converted into private limited company as "Gurmukh Singh & Sons Private Limited". Subsequently in 1985, it was reconstituted as a

Public Limited Company and renamed as the present one. The company is currently being managed by Mr. Jasbir Singh Ryait, Mr. Surinder Singh, Ms. Amarjit Kaur Ryait, Mrs. Dalvinder Kaur Ryait and Mr. Harkirat Singh Ryait. The company is engaged in the manufacturing of automotive suspension and fastening components for Indian and International utility vehicles, commercial vehicles (LCVs, MCVs and HCVs), passenger vehicles, multi-axle vehicles, trailers and special purpose vehicles. The manufacturing facility of the company is done through two units; Ludhiana (Punjab) and Jamshedpur (Jharkhand). The company has an installed capacity to manufacture 10,000 MTs per annum for machined and forged categories and 16,500 MTs per annum of casting items. 3 CARE Ratings Limited Press Release The products are sold under the brand name "GS International". The company mainly caters to original equipment manufacturers (OEM's), replacement market and export ~4% of its products to countries like Brazil, Morocco and Germany. The company has three associate concerns namely; "G S Autocomp Private Limited" (incorporated in 2006) engaged in the manufacturing of auto components, "G.S. Consumer Products Private Limited" (incorporated in 2006) engaged in the manufacturing of auto components and "Gurmukh Singh International LLP" (established in 2015) engaged in the trading of auto components.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	77.52	100.17	59.28
PBILDT	4.48	7.16	2.12
PAT	-3.73	-3.13	-1.01
Overall gearing (times)	1.35	1.53	NA
Interest coverage (times)	1.04	2.14	3.58

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: GSAIL has not cooperated with Brickwork and Infomeric which has classified it in noncooperative category vide press release dated Dec 20, 2021 and Dec 27,2021 respectively

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 (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		-	-	-	16.50	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	June, 2030	22.97	CARE B+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A4
Non-fund-based - ST-ILC/FLC		-	-	-	5.00	CARE A4

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-Term Loan	LT	22.97	CARE B+; Stable	-	1)CARE B+; Stable (28-Dec-21)	-	-
2	Fund-based - LT-Cash Credit	LT	16.50	CARE B+; Stable	-	1)CARE B+; Stable (28-Dec-21)	-	-
3	Non-fund-based - ST-I LC/FLC	ST	5.00	CARE A4	-	1)CARE A4 (28-Dec-21)	-	-
4	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A4	-	1)CARE A4 (28-Dec-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-Not Applicable**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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-I LC/FLC	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.

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