

## GNA Udyog Limited

October 25, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	18.83 (Reduced from 19.50)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Short Term Bank Facilities	1.50 (Reduced from 4.00)	CARE A4 (A Four)	Reaffirmed
<b>Total Bank Facilities</b>	<b>20.33</b> <b>(Rs. Twenty Crore and Thirty-Three Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale and key rating drivers

The rating to the bank facilities of GNA Udyog Limited (GUL) has been revised considering the consistent increase in scale of operations, comfortable capital structure and coverage indicators and healthy profitability margins. Further the rating derives strength from experienced management team, strong and resourceful promoters, long and established relationship with the clients.

However, the ratings are constrained due to small scale of operations, customer concentration risk and elongated operating cycle. The ratings are also constrained by the competitive and cyclical nature of the auto industry.

### Rating Sensitivities

#### Positive:

- Sustained improvement in scale of operations to around Rs. 100 cr.
- Shortening of the operating cycle to nearly 300 days

#### Negative Factor:

- PBILDT margin declining and remaining around 6% on a sustained basis
- Any major debt funded capex resulting in deterioration of overall gearing ratio to above 3.5x

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced management along with strong and resourceful promoters:

GUL is being managed by Mr. Rupinder Singh Sehra (Director), Mrs. Megha Sehra (Director; wife of Mr. Rupinder Singh Sehra) and Mr. Kirpal Singh Saund (Director) who have ~15 years, ~5 years and ~35 years of experience in the industry, respectively. The day-to-day operations of company are mainly handled by Mr. Rupinder Singh Sehra. The directors of the company are ably supported by a well-qualified team of professionals. Furthermore, the promoters of the company are resourceful and have extended continuous financial support in the past by infusing additional funds in the form of unsecured loans to fund various business requirements of the company. The unsecured loans stood at Rs.43.79 crore, as on March 31, 2021.

##### Long track record of operations and established relationship with the clients:

GUL has been engaged in the auto component industry for more than three decades. Further, the relationship of the company with two of its largest clients viz. MSIL and M&M has been for more than two decades. The clients have a rigorous supplier selection process which can range from two to three years, and it is only after a rigorous and lengthy process that a supplier is selected for regular supply. These rigorous selection processes act as an entry barrier for other players to enter the industry and thus helps GUL in receiving regular orders.

##### Improved operational performance with improvement in total operating income and healthy profitability margins:

The operations performance of the company improved mainly on account of improvement in the operating income and healthy profitability margins. In FY21 company has achieved the operating income Rs.41.40 and improved by ~23% on a year-on-year basis on account of increase in demand from its customers and new customers. Further, in 6MFY22 company has achieved a total income of Rs28.04 crore with PAT of Rs1.96 crore (provisional). Further gross cash accruals of the company are also stable at Rs.1.39 crore in FY21 and Rs.1.87 crore in FY20.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Profitability margins of the company remained comfortable as marked by PBILDT margins at 10.53% during FY21. The company is able to derive relatively healthy margins on its products as it operates in a niche segment, with low competition and high degree of complexity involved in the products.

#### **Comfortable capital structure and coverage indicators**

The capital structure of the company remained satisfactory with the long-term debt-to-equity ratio and overall gearing ratio of 0.06x and 0.24x as on March 31, 2021 as against 0.05x and 0.23x, respectively as on March 31, 2020. The total debt to GCA ratio of the company stood at 14.28 as on March 31, 2021 against to 13.29 as on March 31, 2020. The same deteriorated on account of lower cash accruals generated in FY21. The interest coverage ratio of the company stood at 1.48x in FY21 from 1.63x in FY20. However, comfort can be derived from resourceful promoters, which has infused unsecured loan regularly to support the operations of the business.

#### **Key Rating Weaknesses**

##### **Small scale of operations but growing scale of operations:**

The scale of operations of the company has remained small historically. In FY21 (refers to the period April 01 to March 31), the operating income of the company improved by ~23% on a year-on-year basis on account of increase in demand from its customers and stood at Rs.41.40 crore in FY21. Further, in 6MFY22 company has achieved a total income of Rs28.04 crore with PAT of Rs1.96 crore.

##### **Customer concentration risk:**

GUL derives majority of its revenue (~83% of total operating income in FY21) from the sales made to Maruti Suzuki India Limited (MSIL) and Mahindra & Mahindra Limited [M&M (CARE AAA; Stable/CARE A1+)], making its performance directly dependent on the performance of these two companies. The risk, however, is mitigated to some extent as the top revenue contributors are well established players and enjoy strong position in the industry. GUL has been associated with these players for a fairly long time and gets repeat orders from them.

##### **Competitive and cyclical nature of the industry:**

The automobile industry in which the company operates is inherently cyclical in nature with the performance of the manufacturers and other ancillaries depending on the general economic scenario. Thrust on infrastructure development affects the commercial vehicles segment of the industry while factors like monsoon, government policies, credit availability, global demand and supply etc. bear direct dependence to the performance of auto component manufacturers like GUL.

##### **Elongated operating cycle:**

The operating cycle of the company stood elongated at ~427 days for the year ended March 31, 2021. The same improved from ~523 days, for the year ended March 31, 2020, mainly on account of decrease average inventory days from ~630 days, as on March 31, 2020 to ~471 days, as on March 31, 2021. The company's average inventory days remain elongated but improved as company has some slow-moving inventory of approx. Rs.17.00 crore and all this is funded through unsecured loans infused by the promoters which is gradually decreasing year on year basis. On the customer side, the company offers a credit period of ~65-90 days to MSIL and 90-120 Days to M&M. Further, the payment cycle with the company's export customer; Piaggio extends upto ~150 days. This led to an average collection period of ~83 days as on March 31, 2021 (PY: 125 days). On the supplier side, the company generally makes payments within ~127 days as on March 31, 2021 (PY: ~232 days). Further, the working capital limits availed by the company remained almost fully utilized on an average in the past 12 months ended September, 2021.

##### **Liquidity: Adequate:**

The current ratio and quick ratio stood comfortable at 2.16x and 0.48x respectively, as on March 31, 2021 (PY: 1.96x and 0.42x respectively). The company had low free cash and bank balances of Rs.0.66 Cr. as on March 31, 2021 (PY: Rs.0.85 cr.). GUL has a total debt repayment obligation of Rs.1.99 cr. in FY21 proposed to be met through the internal accruals generated by the company during the year. Further, the company has availed new term loans amounting to Rs.4.50 cr. in FY21 under the Emergency Credit Line Guarantee Scheme (EGLS) to manage its working capital requirements. The company had availed moratorium from the bank in light of COVID-19 for the debt obligations due for the period March-2020 to August-2020.

##### **Analytical Approach:** Standalone

##### **Applicable Criteria**

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Criteria for short term instruments](#)

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

### About the Company

Incorporated in the year 1990, GNA Udyog Limited (GUL) is a Jalandhar based company of the GNA group, set-up in the year 1946 for manufacturing of auto components for passenger and commercial vehicles, tractors and off-road equipment. The company is engaged in the business of manufacturing and supplying propeller shaft assemblies, drive shaft components, steering column assemblies, pitmen arms, hydraulic lift assembly parts, etc., to automobile manufacturers like MSIL and M&M, Tier-1 suppliers and after sales market. Major related parties of GUL engaged in the auto component manufacturing business include- GNA Axles Limited (CARE A+; Negative/CARE A1), engaged in the manufacturing of axle shafts and spindles for OEMs and Tier-1 suppliers and GNA Gears Limited (erstwhile GNA Duraparts Limited) which is engaged in the business of manufacturing gears and allied products and. Apart from that, the company has S. Amar Singh Educational Charitable Trust (SECT; rated CARE BB; Stable) as a related party which is engaged in imparting higher education since 2004. The day-to-day operations of GUL are managed by Mr. Rupinder Singh Sehra (s/o S. Jasvinder Singh). S. Jasvinder Singh is the Joint Managing Director of GNA Axles Limited and is also the single largest shareholder (15.30%) in that company. He is also the single largest shareholder in GUL (81%). Also, Mr. Rachhpall Singh (Chairman & ED in GNA Axles Ltd) is a shareholder in GNA Udyog Limited.

(Rs. In crore)

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	33.64	41.4
PBILDT	4.92	4.36
PAT	0.66	0.85
Overall gearing (times)	0.23	0.24
Interest coverage (times)	1.63	1.48

A: Audited

**Status of non-cooperation with previous CRA:** Brickwork has conducted the review on the best available information and classified GUL as not cooperating vide its press release dated September 21, 2020.

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	-	2.74	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	-	1.09	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	1.50	CARE A4

**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	15.00	CARE BB; Stable	-	1)CARE BB-; Stable (17-Dec-20)	-	-
2	Fund-based - LT-Term Loan	LT	2.74	CARE BB; Stable	-	1)CARE BB-; Stable (17-Dec-20)	-	-
3	Fund-based - LT-Term Loan	LT	1.09	CARE BB; Stable	-	1)CARE BB-; Stable (17-Dec-20)	-	-
4	Non-fund-based - ST-Letter of credit	ST	1.50	CARE A4	-	1)CARE A4 (17-Dec-20)	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable****Annexure 4: Complexity level of various instruments rated for this company/firm**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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