

GS Auto International Limited

December 28, 2021

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GS Auto International Limited (GSAIL) are primarily constrained by its modest and declining 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 industry and its presence in a highly competitive auto component industry severely impacted by the slowdown.

The ratings, however, draw 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.100.00 crore and above over the medium term on sustained basis.
- 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:

- Continued losses incurred by the company putting further stress on the liquidity position of the company.
- Continued elongation in the operating cycle beyond 190 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest and declining scale of operations coupled with net losses: GSAIL's scale of operations stood modest as marked by total operating income of Rs.77.52 crore and gross cash accruals of Rs.0.26 crore respectively, during FY21 (FY refers to the period April 1 to March 31) as against Rs.84.09 crore and Rs.0.72 crore respectively, during FY20. Nevertheless, the scale remains modest; it limits the company's financial flexibility in times of stress and deprives it of scale benefits. Moreover, GSAIL's scale of operations remained declining for the period FY19-FY21 (refers to the period April 1 to March 31) and has incurred net losses of Rs.(3.73) crore in FY21. The same was mainly on account of overall slowdown in the automotive industry on account of low economic activity leading to subdued demand in the commercial vehicles segment coupled with lockdown in the country in the wake of COVID-19. Therefore, going forward, it is imperative for the company to target new customers and improve on its scale of operations. Further, the company has achieved total operating income of Rs.40.97 crore during H1FY22 (refers to the period from April 1, 2021 to September 30, 2021; based on provisional results).

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 1.04x and 137.73x respectively for FY21 as against 1.00x and 42.24x respectively for FY20. Further, during H1FY22, it improved marginally and stood at 1.52x and 93.42x respectively.

Elongated operating cycle: The operations of the company stood elongated marked by operating cycle of 157 days for FY21 as against 125 days for FY20. The elongation in operating cycle is on account of increase in inventory holding period owing to lockdown in the country due to COVID-19 impact. Owing to large product portfolio (different type of design, 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 138 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 98 days for FY21. The company receives an average credit period of around 2-3 months from its suppliers resulting in average creditor's period of 80 days for FY21. The working capital borrowings of the company remained almost fully utilized during the past 12 months ending November, 2021.

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 and their prices fluctuates rapidly due to demand supply gap. Raw materials such as mild steel, EN steel, aluminum scrap, copper scrap, etc. constitute a major component of the raw material (i.e., around

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

60% of the total cost of production for the last 3 years (FY19-FY21), hence any volatility in their prices 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 severely impacted by the slowdown: GSAIL operates in a highly competitive industry wherein there is presence of a large number of 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. Currently, the GSAIL's business is severely impacted by the lockdown due to COVID-19 situation in the country coupled with slowdown in the industry on account of low economic activity leading to subdued demand, triggered by the liquidity crisis and the increase of the axle load regulations for commercial vehicles.

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 having extensive experience in auto industry. The company is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Association with reputed customer base: GSAPL has been operational for more than eight decades and has been able to establish healthy relationship with its customers. In light of the established relationship, the company managed to get repeat orders from its customers. Over these years the company has established business relationship with reputed companies like Tata Motors Limited, Ashoka Leyland Limited, Maruti Suzuki Limited, SML Isuzu Limited, VE Commercial Vehicles Limited, etc. and its vendors. Association with reputed customers coupled with repeated orders enhances the image of the company in the market regarding product quality.

Moderate capital structure: The capital structure of the company stood moderate as on the past three balance sheet dates ending March 31, '18-'21 on account of limited debt levels against the net worth base. Overall gearing ratio stood at 1.35x as on March 31, 2021 showing marginal deterioration from 1.01x as on March 31, 2020 mainly on account of increased reliance on external borrowings to fund the incremental working capital requirements of business due to uncertainty of COVID-19 impact. As on September 30, 2021, overall gearing ratio stood at 1.33x.

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.0.26 crore during FY21, Rs.0.36 crore during H1FY22 and is expected to generate envisaged GCA of Rs.0.91 crore for FY22 against repayment obligations of Rs.0.10 crore. Further, the working capital limits are almost fully utilized for the past 12 month's period ending November, 2021. However, the company has adequate free cash & bank balances which stood at Rs.1.32 crore as on September 30, 2021.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology – Auto Ancillary Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

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

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.

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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22* (UA)
Total operating income	84.09	77.52	40.97
PBILDT	4.55	4.48	2.79
PAT	-2.65	-3.73	-1.69
Overall gearing (times)	1.01	1.35	1.33
Interest coverage (times)	1.00	1.04	1.52

A: Audited; UA: Unaudited

*refers to the period from April 1, 2021 to September 30, 2021.

Status of non-cooperation with previous CRA: Brickwork Ratings has conducted the review and has maintained GS Auto International Limited as "Not Cooperating" vide its press release dated December 18, 2020.

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this firm: Annexure- 4

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-Term Loan		-	-	June, 2030	22.97	CARE B+; Stable
Fund-based - LT-Cash Credit		-	-	-	16.50	CARE B+; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	5.00	CARE A4
Non-fund-based - ST-Bank Guarantees		-	-	-	0.50	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-Term Loan	LT	22.97	CARE B+; Stable				
2	Fund-based - LT-Cash Credit	LT	16.50	CARE B+; Stable				
3	Non-fund-based - ST-ILC/FLC	ST	5.00	CARE A4				
4	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4				

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 Guarantees	Simple
4	Non-fund-based - ST-ILC/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 instrument: CARE Ratings Ltd. 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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