

## GNA Axles Limited

January 03, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Ratings Action
Long term Bank Facilities	289.08 (enhanced from Rs. 139.08 crore)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed
Short term Bank Facilities	15.50	CARE A1 (A One)	Reaffirmed
<b>Total Facilities</b>	<b>304.58</b> <b>(Rupees Three hundred Four crore and Fifty Eight lakh only)</b>		

*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 comfortable financial risk profile of the company as reflected in its increasing scale and comfortable profitability margins and overall solvency position. The ratings further derive strength from the long track record of operations with highly experienced promoter group and long & established business relationship with a reputed clientele.

The ratings are, however, constrained by the elongated operating cycle, exposure to client concentration and project execution risks, vulnerability of margins to raw material prices & foreign exchange volatility and the cyclical nature of the automobile industry.

Going forward, the ability of the company to scale-up its operations, manage the working capital requirements efficiently and complete the ongoing project within the time & cost estimates will remain the key rating sensitivities. Any new capex and funding mix for the same, impacting the credit profile, will also remain the key rating sensitivities.

### Outlook: Positive

The outlook is 'Positive' on the expectation of growth in scale of operations with healthy profitability margins along with comfortable solvency and liquidity position of the company going forward. This is expected to be on the back of increase in the manufacturing capacities of the company post completion of capex in the past. The outlook may be revised to 'Stable' if the company is unable to profitably scale-up its operations while maintaining a comfortable solvency and liquidity position.

### 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 Mr Gursaran Singh (Managing Director) who have nearly five decades of industry experience. Other family members of the promoter group are also involved in the day-to-day business activities of the company. The directors are assisted by a team of professionals who are highly experienced in their respective domains.

**Long and established business relationship with clients:** The group has been in the auto component industry since 1946. GAL markets its products through a common marketing network at the group level providing a whole range of products including axles, gears and shafts under one roof. The company has been long associated with its clients. The association with some of the domestic clients has been since the commencement of company operations. Furthermore, over the years, the company has increased its focus on exports with clients in the USA, Europe, Asia Pacific, Mexico, Brazil, etc. The company has been supplying to some of the export clients since 2000. Long and established relationships with clients provide revenue stability to the company. Apart from supplying directly to Original Equipment Manufacturers (OEMs), the company also provides components to the tier-1 suppliers.

**Comfortable financial risk profile:** The total operating income of the company increased by ~30% in FY'18 (refers to the period April 01 to March 31), as compared to the last year on the back of increased demand from its domestic as-well-as export clients and improved sales realization in the domestic market. Though the PBILDT margins of the company declined in FY18, on account of increase in raw material costs which could not be completely passed on to its customers, the same continued to remain at a comfortable level. The PAT margins, however, improved during the year, on account of

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

lower interest expenses and higher PBILDT in absolute value terms. The overall solvency position of the company remained comfortable and improved on a year-on-year basis.

In H1FY19 (UA), the company has achieved a total operating income of Rs.439.96 cr. which increased by ~46% on a year-on-year basis compared to the same period last year. The PBILDT margins declined during the period to 15.37% compared to 16.13% achieved in H1FY18 (UA) on account of increased raw material costs. The interest coverage ratio, however, improved on a y-o-y basis to 16.50x in H1FY19 compared to 12.42x in H1FY18, on account of higher PBILDT in absolute value terms.

**Reputed clientele; albeit, customer concentration risk:** GAL has a long history of supplying auto parts to reputed OEMs who enjoy strong market position. Furthermore, for its export clients (exports contributing ~46% to the total operating income in FY18), GAL supplies auto parts for their plants located in various geographies including USA, Brazil, Australia, Mexico, Italy, Spain, etc., thereby mitigating the risk arising from slowdown in one particular geographical location. However, the revenue stream of GAL remains concentrated with top-5 and top-10 clients accounting for about 62% and around 79%, respectively, of the total income in FY18 (PY: 56% and 74%, respectively). Any significant deterioration in the performance of these clients is expected to have an impact on the financial profile of GAL.

#### Key Rating Weaknesses

**Susceptibility of margins to volatility in raw material prices, foreign exchange risk and cyclical nature of the industry:**

The operations of the company are raw material intensive in nature with the raw material cost constituting around 55% of the income in FY18. Furthermore, GAL derives a substantial portion of its income from exports 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 against adverse currency movements. GNA's products find applications in the automobile sector which is cyclical in nature. The demand for this industry is susceptible to changes in the economic climate. A fall in the level of economic activity can dissuade the customers, thereby impacting the sales of the automotive industry as the automobile manufacturers may limit the production levels.

**Project execution risk:** The company is setting-up a unit for manufacturing of axle shafts for LCV's (Light Commercial vehicles), Small Pick-ups and SUV's (Sport Utility Vehicles) at a total project cost of ~Rs.90 cr., proposed to be funded completely through term loans of Rs.90 cr. (full tied-up). As on December 20, 2018, the company has incurred a total expenditure of ~Rs.70 crore towards the building and for purchase of machineries. The project is expected to start commercial operations by April-19.

The company is also undertaking another capex for enhancing its forging and machining capacity at a total project cost of Rs.80 cr. to be funded through term loan of Rs.60 cr. (fully tied-up) and remaining through internal accruals generated by the company (amounting to Rs. 20 cr.). The project is expected to start its commercial operations from January-20. As on November 30, 2018, the company has incurred Rs.5 cr. on the project.

Though the projects are in the same line of business, the ability of the company to complete the proposed capex within the projected time and cost estimates will remain a key rating sensitivity. Further, any new capex and funding mix for the same, impacting the credit profile, will also remain a key rating sensitivity.

#### Liquidity position

**Satisfactory liquidity position:** Though the PCFC limit availed by the company remained fully utilized in the last 12 months ended November, 2018, there remained sufficient cushion in the cash credit limit availed which remained only ~10% utilized, on an average. The operating cycle of the company, however, stood elongated at 96 days, as on March 31, 2018 (PY: 78 days) on account of elongated collection period (payment from the domestic clients is received within 60 days and up to 5 months from export customers) and high inventory holding days. The company has a total debt repayment obligation of Rs.18.79 cr. in FY19 (Rs. 9.40 cr. repaid till September 30, 2018), which is proposed to be met through the internal accruals [GCA of Rs. 74.94 cr. in FY18 and Rs. 46.74 cr. in H1FY19 (UA)]. As on March 31, 2018, GAL also had free cash & liquid investments of Rs.10.88 Cr. The current and quick ratios continued to remain moderate at 1.47x and 0.99x, respectively (Previous Year: 1.58x and 1.14x, respectively).

**Analytical Approach:** Standalone

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's policy on default recognition](#)

[CARE's methodology for manufacturing companies](#)

[CARE's methodology for Auto Ancillary companies](#)

[Criteria for Short Term Instruments](#)

### Company Background

GNA Axles Limited (GAL) is a Jalandhar based company, 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-highway equipment. The company is engaged in the business of manufacturing and supplying axle shafts and spindles (ranging from 2 kg to 150 kg) to OEMs and Tier-1 suppliers. GAL has its manufacturing facilities located in Hoshiarpur, Punjab with an installed capacity of ~4 million pieces per annum, as on March 31, 2018. Apart from catering to the domestic clients, GAL also exports its products to USA, Brazil, Sweden, Mexico, Italy, Spain, etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	516.32	673.01
PBILDT	83.35	105.93
PAT	28.19	50.60
Overall gearing (times)	0.41	0.38
Interest coverage (times)	6.66	14.93

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: NA

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

**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.

### Analyst Contact:

Name: Mr Sudeep Sanwal

Tel: 0172-4904002

Cell: +91 9958043187

Email: [sudeep.sanwal@careratings.com](mailto:sudeep.sanwal@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

### 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.

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A1
Term Loan-Long Term	-	-	March-2025	169.08	CARE A; Positive
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	80.00	CARE A; Positive
Non-fund-based - ST-Letter of credit	-	-	-	15.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE A; Positive	1)CARE A; Positive (26-Jul-18)	1)CARE A; Stable (12-Jun-17) 2)CARE A; Stable (13-Apr-17)	1)CARE A- (05-Jul-16) 2)CARE A- (01-Jun-16)	1)CARE BBB+ (07-Jul-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1	1)CARE A1 (26-Jul-18)	1)CARE A1 (12-Jun-17) 2)CARE A1 (13-Apr-17)	1)CARE A2+ (05-Jul-16) 2)CARE A2+ (01-Jun-16)	1)CARE A2 (07-Jul-15)
3.	Term Loan-Long Term	LT	169.08	CARE A; Positive	1)CARE A; Positive (26-Jul-18)	1)CARE A; Stable (12-Jun-17) 2)CARE A; Stable (13-Apr-17)	1)CARE A- (05-Jul-16) 2)CARE A- (01-Jun-16)	-
4.	Fund-based - LT-Packing Credit in Foreign Currency	LT	80.00	CARE A; Positive	1)CARE A; Positive (26-Jul-18)	1)CARE A; Stable (12-Jun-17) 2)CARE A; Stable (13-Apr-17)	1)CARE A- (05-Jul-16) 2)CARE A- (01-Jun-16)	-
5.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1	1)CARE A1 (26-Jul-18)	1)CARE A1 (12-Jun-17) 2)CARE A1 (13-Apr-17)	1)CARE A2+ (05-Jul-16) 2)CARE A2+ (01-Jun-16)	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 85111-53511/99251-42264  
 Tel: +91- 0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)