GNA Axles Limited

July 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Ratings Action
Long term Bank Facilities	270.00 (reduced from Rs. 289.08 crore)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Positive (Single A; Outlook: Positive)
Short term Bank Facilities	15.50	CARE A1 (A One)	Reaffirmed
Total Facilities	**285.50 (Rupees Two hundred Eighty Five crore and Fifty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long-term bank facilities of GNA Axles Limited (GAL) takes into account strong operational performance of the company leading to healthy scale-up of operations in FY19 (refers to the period April 01 to March 31). The ratings continue to derive strength from the comfortable profitability margins and overall solvency position, 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 profitably scale-up its operations, manage the working capital requirements efficiently and complete the ongoing capex 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 a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance leading to healthy scale-up of operations in FY19: In FY19, the total operating income of the company increased by ~39% compared to last year on the back of increased demand from its domestic as well as export clients and improved sales realization per unit sold in both domestic and export markets. The total quantity sold, increased on a year-on-year basis by ~22% supported by increase in quantity sold in both domestic and export markets. The increase in quantity sold in FY19 was on account of improved demand in off-highway and commercial vehicle segments in domestic market and commercial vehicle segment in export market.

Comfortable profitability margins and solvency position: The PBILDT margins of the company moderated marginally in FY19, though continued to remain at a comfortable level due to various modernization & up-gradation projects undertaken by the company in the past which has led to improved efficiencies. The moderation in PBILDT margins in FY19 was mainly on account of increase in raw material costs which were not completely passed on to its customers. Further, the PAT margins declined during the year, on account of more than proportionate increase in depreciation expenses due to capitalization of capex undertaken by the company in the past from IPO (Initial Public Offer) proceeds. However, the GCA of the company, in absolute value terms increased at a healthy rate of ~35% in FY19 on a year-on-year basis. The capital structure of the company remained comfortable, though slightly deteriorated on account of increased term loans availed by the company for the on-going capacity enhancement capex being undertaken by the company. The total debt to GCA ratio improved on account of improved profitability during the year. The interest coverage ratio also improved in FY19 on account of improved profitability and less than proportionate increase in interest expenses during the year.

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

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

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. Exports contributed ~54% of the total operating income in FY19, compared to ~47% in FY17. 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 the Original Equipment Manufacturers (OEMs), the company also provides components to the tier-1 suppliers.

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, 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 66% and around 80%, respectively, of the total income in FY19 (PY: 62% and 79%, 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 57% of the income in FY19. 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. (fully availed). The project is expected to start commercial operations after June-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 a 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 March 31, 2019, the company has incurred a total cost of ~Rs. 88 cr. on these projects funded through term loan of ~Rs. 82 cr. and remaining through internal accruals generated by the company. 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

Adequate liquidity position: Though the PCFC limit availed by the company remained fully utilized in the last 12 months ended May, 2019, there remained sufficient cushion in the cash credit limit availed which remained only ~25% utilized, on an average. The operating cycle of the company, however remained elongated at 99 days, as on March 31, 2019 (PY: 96 days). The company has a total debt repayment obligation of Rs.17.60 cr. in FY20, which is proposed to be met through the internal accruals (GCA of Rs. 101.50 cr. in FY19). As on March 31, 2019, GAL had free cash & bank balances of Rs.0.36 Cr. The current and quick ratios continued to remain moderate at 1.66x and 1.13x, respectively (Previous Year: 1.47x and 0.99x, 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
Criteria for Short Term Instruments
CARE's methodology for Auto Ancillary Companies

About the company

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 equipments. 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 ~4.25 million pieces per annum, as on March 31, 2019. Apart from catering to the domestic clients, GAL also exports its products to USA, Brazil, Sweden, Mexico, Italy, Spain, etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	673.01	935.20
PBILDT	105.93	145.44
PAT	50.60	65.49
Overall gearing (times)	0.38	0.42
Interest coverage (times)	14.93	17.95

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

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	-	-	May-2025	150.00	CARE A+; Stable
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	80.00	CARE A+; Stable
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE A+; Stable	-	1)CARE A; Positive (03-Jan-19) 2)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)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1	-	1)CARE A1 (03-Jan-19) 2)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)
3.	Term Loan-Long Term	LT	150.00	CARE A+; Stable	-	1)CARE A; Positive (03-Jan-19) 2)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 Foregin Currency	LT	80.00	CARE A+; Stable	-	1)CARE A; Positive (03-Jan-19) 2)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 (03-Jan-19) 2)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)

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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