

Galaxy Bearings Limited

February 06, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term/Short-term Bank Facilities	14.00	CARE BBB-;Stable/CARE A3 (Triple B Minus; Outlook: Stable/A Three)	Reaffirmed
Short term Bank Facilities	2.30	CARE A3 (A Three)	Reaffirmed
Long term Bank Facilities	-	-	Withdrawn*
Total Facilities	16.30 (Rupees Sixteen crore and Thirty lakhs only)		

Details of instruments/facilities in Annexure -1

**The rating assigned to term loan facility is withdrawn as it has been fully repaid.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Galaxy Bearings Limited (GBL) continues to derive strength from increasing scale of operations albeit fluctuating but healthy profitability, improved capital structure and debt coverage indicators during FY18 (refers to the period from April 01 to March 31). Further, the ratings continue to take into account GBL's experienced promoters, its long-standing relationship with reputed customer base as well as export oriented operations. The ratings continue to remain constrained on account of susceptibility of its profitability to raw material price & foreign exchange rate fluctuation and its presence in a competitive industry with demand linked to the cyclical automobile industry. The ratings also take into consideration elongated operating cycle and moderate liquidity position for GBL. The ability of GBL to increase its scale of operations, improve profitability amidst competition in the industry and efficient management of working capital are the key rating sensitivities. Further, maintaining favourable solvency position and debt protection metrics will also remain crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Increasing scale of operations albeit fluctuating profit margins

During FY18, Total Operating Income of GBL grew by 23.72% to Rs.54.04 crore as against Rs.43.68 crore in FY17 on account increase in sales volumes backed by higher demand from the domestic as well as international market. During FY18, GBL's exports stood at 62.34% of TOI as against 56.78% of TOI in FY17. Profit margins stood healthy marked by PBIDLT margin of 14.53% during FY18 as against 16.67% during FY17, slight moderation was on account of increase in raw material procurement costs, selling expenses and other expenses during FY18 over FY17. PAT margin stood at 6.67% in FY18 as against 6.83% in FY17.

Improved capital structure and debt coverage indicators

As on March 31, 2018, capital structure improved and continued to remain comfortable marked by an overall gearing ratio of 0.24 times as against 0.42 times as on March 31, 2017 on account of decrease in total debt due to lower utilization of working capital borrowings as on balance sheet date and scheduled repayment of term loan coupled with increase in net worth pertaining to accretion of profit to reserves.

Debt coverage indicators improved and stood comfortable marked by total debt to GCA of 1.27 times in FY18 as against 2.12 times in FY17 on account of decrease in the total debt coupled with increase in the GCA level. Interest coverage ratio improved and stood at 6.61 times during FY18 as against 5.14 times during FY17 on account of improvement in PBIDLT level and decrease in interest expenses.

Experienced promoters

GBL is headed by Mr. Vinodrai Kansagara and Mr. Bharatkumar Ghodasara, who looks after overall functions of the company and holds experience of more than three decades in same line of business.

Key Rating Weaknesses

Working capital intensive operations and moderate liquidity position

Operating cycle improved but stood elongated at 147 days during FY18 as against 197 days during FY17, improvement in operating cycle was owing to decrease in inventory holding period. GBL has to maintain high level of inventory along with extended credit period offered to its customers owing to which operating cycle remains elongated. However, average

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

working capital utilization remained moderate at 41% for trailing 12 month period ended December 2018. Further, the cash & bank balance stood at Rs.0.18 crore as on March 31, 2018.

Raw material price fluctuation and exchange rate fluctuation

Raw material cost incurred by GBL constitute around 45-55% of its total cost. As a consequence, GBL's profitability is dependent on the vagaries of price fluctuation in its primary raw material i.e. steel bars. However, in the export market, exposure to raw material price fluctuation is mitigated to a certain extent because of the cost plus pricing model wherein GBL's realizations would be based on the raw material cost plus conversion cost plus profit margin. GBL's exports constituted around 62% of its TOI during FY18, while it procures its entire raw material requirement domestically; thereby exposing it to risk of exchange rate movement.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology - Auto Ancillary Companies](#)

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

About the company

Galaxy Bearings Limited (GBL) was incorporated in 1990 and is currently listed on the Bombay Stock Exchange (BSE). The company is engaged in the manufacturing of tapered roller bearings, cylindrical roller bearings and ball bearings for commercial vehicles. GBL acts as a contract manufacturer for other bearing manufacturers like Action Construction Equipment Limited, Escorts Limited, Tritech Engineering Holdings Limited, Delux Bearings Private Limited. The company has its manufacturing facility located near Rajkot, Gujarat with a manufacturing capacity of 21 lakh bearings per annum and caters to the automotive original equipment manufacturers, industrial, defence, state transport and after market segments.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	43.78	54.04
PBILDT	7.22	7.85
PAT	2.94	3.61
Overall gearing (times)	0.42	0.24
Interest coverage (times)	5.09	6.61

A: Audited.

As per provisional results of H1FY19, GBL has achieved TOI of Rs.36.09 crore with PBILDT and PAT of Rs.4.71 crore and Rs.2.82 crore respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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-Term Loan	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.30	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A3
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	13.00	CARE BBB-; Stable / CARE A3
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	1.00	CARE BBB-; Stable / CARE A3

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/ ST-CC/PC/Bill Discounting	LT/ST	13.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (01-Mar-18)	1)CARE BB+; Stable / CARE A4+ (29-Mar-17)	-
2.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3	-	1)CARE A3 (01-Mar-18)	1)CARE A4+ (29-Mar-17)	-
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.30	CARE A3	-	1)CARE A3 (01-Mar-18)	1)CARE A4+ (29-Mar-17)	-
4.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	1.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (01-Mar-18)	1)CARE BB+; Stable / CARE A4+ (29-Mar-17)	-
5.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (01-Mar-18)	1)CARE BB+; Stable (29-Mar-17)	-

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