

Galaxy Bearings Limited

March 01, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	0.89 (reduced from 1.69)	CARE BBB-;Stable (Triple B Minus; Outlook: Stable/A Three)	Revised CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short term Bank Facilities	2.30	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Long-term/Short-term Bank Facilities	14.00 (reduced from 14.15)	CARE BBB-;Stable/CARE A3 (Triple B Minus; Outlook: Stable/A Three)	Revised from CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/A Four Plus)
Total Facilities	17.19 (Rupees Seventeen crore and Nineteen lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Galaxy Bearings Limited (GBL) is on account of improvement in scale of operations, profit margins, capital structure and debt coverage indicators during FY17 (refers to the period from April 01 to March 31). The ratings continue to derive strength from GBL's experienced promoters, its long-standing relationship with reputed customer base as well as export oriented operations.

The ratings are 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 operating cycle are the key rating sensitivities. Further, maintaining favourable solvency position and debt protection metrics will also remain crucial. Any unforeseen debt funded capex having significant impact on solvency position and debt protection metrics will also be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Increasing scale of operations coupled with improved profit margins

During FY17, TOI of GBL improved by 16.95% to Rs.43.78 crore as against Rs.37.44 crore in FY16 on account increase in sales volumes backed by higher demand from the domestic market. During FY17, GBL's exports stood at 56.78% as against 63.67% in FY16.

Profit margins stood healthy marked by PBIDLT margin of 16.49% during FY17 as against 14.91% during FY16. PAT margin stood at 6.71% in FY17 as against 4.26% in FY16.

Improved capital structure and debt coverage indicators

As on March 31, 2017, capital structure improved and continued to remain comfortable marked by an overall gearing ratio of 0.42 times as against 0.92 times as on March 31, 2016 on account of decrease in total debt due to lower utilization of working capital borrowings as on balance sheet date along with the scheduled repayment of term loan and repayment of unsecured loans in FY17 coupled with increase in net worth pertaining to accretion of profit to reserves.

in FY17, the debt coverage indicators improved and stood comfortable marked by total debt to GCA of 2.15 times as against 5.85 times as on March 31, 2016 on account of decrease in the total debt coupled with

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

increase in the GCA level. Interest coverage ratio stood at 5.09 times during FY17 as against 3.03 times during FY16 on account of improvement in PBILDT 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

Moderate liquidity position along with elongated operating cycle

During FY17, GBL's current ratio improved marginally and stood at 1.75x and 1.64x during FY16. Operating cycle improved but stood elongated to 198 days during FY17 as against 248 days during FY16 owing to improvement in inventory and receivable 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 working capital utilization remained moderate at 46% for trailing 12 month period ended January 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 by the cost plus model wherein GBL's realizations would be based on the raw material cost plus the conversion cost plus a margin.

GBL's exports constitutes around 56% of its total operating income, 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)	FY16 (A)	FY17 (A)
Total operating income	37.44	43.78
PBILDT	5.58	7.22
PAT	1.60	2.94
Overall gearing (times)	0.92	0.42
Interest coverage (times)	3.03	5.09

A: Audited.

As per provisional results of 9MFY18, GBL has achieved TOI of Rs.34.24 crore.

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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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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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/ ST-CC/PC/Bill Discounting	-	-	-	13.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A3
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.30	CARE A3
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	1.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	September 2019	0.89	CARE BBB-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	13.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+ (29-Mar-17)	-	-
2.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3	-	1)CARE A4+ (29-Mar-17)	-	-
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.30	CARE A3	-	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 BB+; Stable / CARE A4+ (29-Mar-17)	-	-
5.	Fund-based - LT-Term Loan	LT	0.89	CARE BBB-; Stable	-	1)CARE BB+; Stable (29-Mar-17)	-	-

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