

September 09, 2021

GNA Gears Limited: Rating upgraded to [ICRA] BBB; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	74.52	76.08	[ICRA]BBB; upgraded from [ICRA]BBB-; outlook revised to Stable from Positive
Long-term– Fund-based Working Capital	70.00	70.00	[ICRA]BBB; upgraded from [ICRA]BBB-; outlook revised to Stable from Positive
Unallocated limits	5.48	3.92	[ICRA]BBB; upgraded from [ICRA]BBB-; Outlook revised to Stable from Positive
Total	150.00	150.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into consideration the consistent improvement in GNA Gears Limited’s (GNAGL) operational profile, led by growing share of business (SoB) from its existing key customers as well as new customer acquisition, which has resulted in healthy revenue and margin performance over FY2021 and the current year. The rating continues to favourably factor in the long experience of the company’s promoters in the auto-ancillary industry. Moreover, it enjoys considerable financial flexibility, along with operational and technical synergies, as a part of the larger GNA Group.

The rating, however, remains constrained by GNAGL’s moderate financial risk profile with modest leverage and debt coverage metrics. The company’s ability to generate timely and commensurate returns on completion of the capex will thus be crucial. The rating continues to factor the moderately high customer concentration and vulnerability to demand in OEM segments catered by the company, particularly the tractors segment.

The Stable outlook on the rating notes the company’s strong business relationships accompanied by healthy share of business with its clientele and growing order flow both from the domestic and export markets.

Key rating drivers and their description

Credit strengths

Healthy SoB with OEMs in tractors segment; new customer acquisitions to support future revenue growth – GNAGL manufactures automotive gears and gear boxes. It has established business relationships with reputed tractor OEMs such as Mahindra & Mahindra (M&M) and ITL (Sonalika). Although the tractor industry contributes to a major (60-65%) share of GNAGL’s revenues and profits, it also has presence in the construction equipment through healthy share of business with JCB, a leading construction equipment manufacturer in India. The company managed to register revenues of Rs. 344 crore in FY2021 at a healthy growth of 21% over FY2020. It has acquired new customers such as Meritor Europe, Meritor India and Escorts Limited, which augurs well for future revenue growth. This along with the increasing SoB with the existing customers enabled the company to maintain its growth momentum in FY2022, despite the disruptions caused by the second wave of the Covid-19 pandemic. As a result, GNAGL achieved Rs. 194 crore of revenues in the first five months of FY2022 with an average monthly

sales of Rs. 36-40 crore. The company sustained margin improvements in FY2021 pursuant to de-bottlenecking and technological upgradation and is expected to sustain the same going forward.

Healthy financial flexibility as a part of the GNA Group – Despite being separate legal entities, GNAGL and GNA Axles Limited (GNAAL) are both managed by S. Gursaran Singh’s family and, thus, GNAGL enjoys certain operational and technical synergies from this association. Moreover, the association provides the company with certain financial flexibility although there is no financial support extended by either entity towards one another.

Credit challenges

Moderate financial risk profile characterised by moderate gearing in the backdrop of growth capex – The company’s financial risk profile is characterised by a moderate gearing of 1.2 times and Debt/OPBDITA of 2.9 times as on March 31, 2021. The interest coverage and DSCR improved to 4.0 times and 2.0 times in FY2021 compared to 2.7 and 1.8 times, respectively, in FY2020 with an improvement in its operating profitability. The company is incurring a capex of ~Rs. 40-45 crore, which would support its growth plans. Given that the same is partly debt funded, GNAGL’s ability to generate timely and commensurate returns over a sustained moderate working capital cycle will be crucial.

Significant concentration in customer portfolio albeit improvement in FY2021 – Due to a reduction in tractor demand in FY2020, the customer concentration has increased with top five customers contributing to around 75% of the revenues in FY2020, which is higher compared to 60-65% over the past two-three years. The customer concentration, however, improved to 62% in FY2021 owing to new customer acquisitions and decline in revenues from some top customers such as New Holland Tractors.

Exposed to vulnerability in demand in the segments catered – The company derives majority (85-90%) of its revenues from the tractor and the construction equipment industries, which are exposed to vulnerability in demand due to the inherent cyclicity in the industries. While the tractor industry remains exposed to fluctuations in the demand scenario with sensitivity to monsoons and farmer sentiments, the construction equipment business growth largely remains linked to economic activity in the market. Nonetheless, the Government’s focus towards rural development, along with an enhanced budget allocation for infrastructure projects, is expected to aid revenue growth prospects for the company over the medium term.

Liquidity position: Adequate

GNAGL has **adequate** liquidity owing to sizeable unutilised working capital limits, and modest level of free cash. The company also has high planned capex of Rs. 40-45 crore against which it is holding undrawn term loans and has debt repayments of Rs. 10-12 crore in FY2022, which should be adequately addressed by its existing cash accruals.

Rating sensitivities

Positive factors – A steady growth in revenues, coupled with improvement in profitability margins, strengthening the company’s financial profile, or Debt/OPBDITA lower than 2.5 times, on a sustained basis, could lead to a rating upgrade.

Negative factors – Any significant deterioration in the return indicators or liquidity profile either due to a prolonged slowdown in demand or higher-than-expected capital expenditure adversely impacting the company’s credit profile may lead to a negative rating action. Specific metrics that could result in a downward rating movement would include Debt/OPBDITA higher than 2.8 times on a sustainable basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1980, GNA Gears Limited (formerly known as GNA Duraparts Limited) is a part of GNA Group, which has presence in the auto ancillary business since 1946. The company is completely owned by Mr. Gursaran Singh's family. GNAGL is primarily involved in manufacturing automotive gears, which have application in diversified segments such as tractors, commercial vehicles (CV) and construction vehicles. It also manufactures axles and shafts for the domestic CV replacement market.

The company's manufacturing facility is located in Mehtiana, Punjab and is equipped with the latest technology, which performs all functions in house including forging, heat treatment, dry cutting, and machining. It generates nearly 86-88% of its revenues from the domestic OEM segment and the balance 5-7% and 7-8% from exports and replacement segment, respectively.

Key financial indicators (audited)

GNA Gears Limited	FY2020	FY2021
Operating Income (Rs. crore)	285.3	344.0
PAT (Rs. crore)	6.5	15.7
OPBDIT/OI (%)	9.5%	12.2%
PAT/OI (%)	2.3%	4.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.8
Total Debt/OPBDIT (times)	3.6	2.9
Interest Coverage (times)	2.7	4.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Sep 09, 2021	Apr 21, 2021	27-Feb-2020	14-Nov-2018	29-Dec-2017	
1	Term Loans	Long-term	76.08	51.10	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2	Fund based Working capital facilities	Long-term	70.00	59.80	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
3	Unallocated Limits	Long-term	3.92	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	

&= Under watch with developing implications;

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loans	Simple
Long-term– Fund Based Working Capital	Simple
Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans-I	2017-20	8.65%	2024-25	17.55	[ICRA]BBB (Stable)
NA	Term loan -II	2021	8.65%	2025	30.00	[ICRA]BBB (Stable)
NA	Term Loans- III	2017-19	10.17%	2021-24	18.32	[ICRA]BBB (Stable)
NA	Term Loans-IV	2017-20	9.50%	2021-23	6.91	[ICRA]BBB (Stable)
NA	Term Loan-V	2020	12.50%	2024	3.30	[ICRA]BBB (Stable)
NA	Cash Credit- I	NA	8.65%	NA	51.00	[ICRA]BBB (Stable)
NA	Cash Credit – II	NA	9.25%	NA	19.00	[ICRA]BBB (Stable)
NA	Unallocated long-term limits	NA	NA	NA	3.92	[ICRA]BBB (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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