

December 05, 2024

## GNA Gears Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	125.00	125.00	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Working capital	80.00	80.00	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	<b>205.00</b>	<b>205.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the rating for GNA Gears Limited’s (GNAGL) factors in its established operational track record in the domestic tractors, commercial vehicles (CVs) and construction equipment (CE) industries and the extensive experience of its promoters with over three decades in the auto ancillary industry. Additionally, the rating continues to factor in the reputed clientele and a healthy share of business with its original equipment manufacturer (OEMs) in tractor, CV and CE segments. GNAGL reported some moderation in its revenue in FY2024 due to a slowdown in the domestic tractors industry, the decline in average realisations amid softening steel prices and a lower-than-expected ramp-up of export revenues. However, the company’s business performance has witnessed some improvement in the current fiscal, supported by the ramp-up of recently added capacities and increasing export revenues. Moreover, the addition of new lines and business acquisitions is also expected to aid in the diversification of segments.

The rating is, however, constrained by GNAGL’s moderately high customer concentration risk, exposure to cyclicity in its end-user industries and vulnerability of the company’s operating margins to raw material price volatility. GNAGL incurred sizeable debt-funded capex over FY2023-FY2024 towards the upgradation of existing manufacturing infrastructure and capacity/product mix augmentation. However, it was unable to generate commensurate returns from the same in FY2024 due to a lower-than-anticipated ramp-up of orders, exerting some pressure on its coverage metrics. The metrics are, however, expected to improve gradually with higher revenue growth and earnings over FY2025 and FY2026.

The Stable outlook on the long-term rating reflects ICRA’s opinion that GNAGL will continue to benefit from its strong business relationships accompanied by a healthy share of business with its key clientele and growing order flow both from the domestic and export markets.

### Key rating drivers and their description

#### Credit strengths

**Established operational track record of GNAGL and extensive experience of the promoters in the industry** – GNAGL is owned and managed by Mr. Gursaran Singh and his son, Mr. Gurdeep Singh and family, who have extensive experience in the auto ancillary business of more than three decades. The company has a strong infrastructure, operating out of its facility in Phagwara, Punjab. Over the years, the company has maintained an established operational track record in servicing gears and gear boxes to the domestic tractors, CE, CV, agriculture, passenger vehicles and after-market segments.

**Healthy share of business with OEMs in tractors segment** – GNAGL has established business relationships and a healthy share of business with reputed tractor OEMs such as Mahindra & Mahindra (M&M), International Tractors Limited (ITL); and CV and CE OEMs such as JCB India Limited, New Holland Fiat Private Limited for various product sub-categories. In the export market, the company has established relations with tier-1 suppliers such as Dana Commercial Vehicles Group and Meritor USA Inc.

**New customer acquisitions to support future revenue growth and diversification** – The company continues to gain incremental business from its existing clientele as well as add new customers from domestic and export markets. The company has a diversified portfolio, including gears and shafts of various sizes. Moreover, it has recently upgraded its manufacturing set-up with additional capacity to expand its product portfolio and address its client requirements. Going forward, the growth momentum is expected to witness an improvement on the back of additional capacities and incremental business from new segments as well as the export market.

### Credit challenges

**Moderate financial risk profile, characterised by moderate coverage metrics given sizeable debt-funded capex** – The company is in the business of forging and machining automotive gears and related parts, which require significant capex for new capacity addition and regular maintenance. GNAGL incurred sizeable debt-funded capex over FY2023 and FY2024, leading to some moderation in the company's coverage indicators, such as DSCR and total debt/OPBDITA to 1.3 times and 4.7 times, respectively, in FY2024 (from 2.0 times and 3.2 times, respectively, in FY2023). However, the expected ramp-up of revenues from the recently added capacities without any significant increase in debt levels is anticipated to support the improvement in the coverage metrics over the near-to-medium term.

**Profitability vulnerable to commodity price headwinds** – The company's basic raw material is steel, which is procured indigenously. GNAGL has been able to partially pass on the increase in raw material prices to its customers, although with a lag. This, coupled with a relatively lower absorption of fixed overheads amid low revenue growth, had led to a decline in operating margins to 9.7% in FY2024 from 10.9% in FY2023. However, the change in product mix, some stability in raw material prices and higher growth has supported the improvement in the company's operating margins to 12.4% for 5M FY2025.

**Exposed to vulnerability in demand from end-user sectors amid high competition** – The company derives ~70% of its revenues from the tractor and construction industries, which are exposed to demand cyclicality. The tractor industry remains exposed to fluctuations in demand with sensitivity to monsoons and farmer sentiments. However, growth in the CE business largely remains linked to economic activity. Moreover, GNAGL encounters customer concentration risk, which further increased in FY2024 with its top five customers driving 80% of its revenues compared to 65% in FY2023. GNAGL's customer concentration risk is partly mitigated by its established long-term relationships and high share of business with its clientele as well as the reputed stature of its OEM clientele.

### Liquidity position: Adequate

GNAGL liquidity remains adequate supported by free cash and liquid investments of ~Rs. 15 crore as of September 2024, and unutilised working capital limits of ~Rs. 25 crore as of September 2024. The company has plans of incurring capex of Rs. 20-25 crore and debt repayment obligations of Rs. 30-35 crore p.a. in FY2025-FY2026, which are expected to be adequately funded through incremental debt and internal accruals.

### Rating sensitivities

**Positive factors** – A steady growth in earnings over a diversified customer base, strengthening the company's financial profile and resulting in improvement in credit metrics such as total debt/OPBDITA being 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 capex adversely impacting the company's credit profile may lead to a negative rating action. Specific metrics would include DSCR lower than 1.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 1980, GNAGL is a part of GNA Group, which has been present in the auto ancillary business since 1946. GNAGL is primarily involved in the manufacturing of automotive gears with an application in diversified sectors such as tractors, CVs and construction vehicles. The company also manufactures axles and shafts for the domestic CV replacement market. GNAGL's manufacturing facility is in Mehtiana, Punjab, where all in-house operations are undertaken, including forging, heat treatment, dry cutting and machining. The tractor segment is the largest contributor to the company's sales (50%), followed by the CE (~20%), agriculture (17%) and CV (7%) segments. The company is completely owned and managed by Mr. Gursaran Singh, his son, Mr. Gurdeep Singh and family, following a realignment of the shareholding in September 2024.

## Key financial indicators (audited)

GNAGL - Standalone	FY2023	FY2024
Operating income	525.9	491.1
PAT	23.0	11.7
OPBDIT/OI	10.9%	9.7%
PAT/OI	4.4%	2.4%
Total outside liabilities/Tangible net worth (times)	1.8	1.9
Total debt/OPBDIT (times)	3.2	4.7
Interest coverage (times)	6.0	4.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	Dec 05, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	125.00	<b>[ICRA]BBB (Stable)</b>	14-Sept-23	[ICRA]BBB (Stable)	24-Nov-22	[ICRA]BBB (Positive)	21-Apr-21	[ICRA]BBB- (Positive)
								09-Sep-21	[ICRA]BBB (Stable)
Cash credit	Long-term	80.00	<b>[ICRA]BBB (Stable)</b>	14-Sept-23	[ICRA]BBB (Stable)	24-Nov-22	[ICRA]BBB (Positive)	21-Apr-21	[ICRA]BBB- (Positive)
								09-Sep-21	[ICRA]BBB (Stable)
Unallocated	Long-term	-	-	-	-	24-Nov-22	[ICRA]BBB (Positive)	21-Apr-21	[ICRA]BBB- (Positive)
								09-Sep-21	[ICRA]BBB (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund Based – Term Loan	Simple
Long-term – Fund Based – Working Capital	Simple

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 analysing 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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	2017-2023	9.50%-10.00%	2022-2028	125.00	[ICRA]BBB (Stable)
NA	Cash credit- I	NA	NA	NA	61.00	[ICRA]BBB (Stable)
NA	Cash credit – II	NA	NA	NA	19.00	[ICRA]BBB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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