January 02, 2025

GNA Axles ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	199.00	199.00	[ICRA]AA- (Stable); reaffirmed
Long-term Fund-based – Term loan	81.50	181.50	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
Short-term – Non-fund Based Limits	0.50	0.50	[ICRA]A1+; reaffirmed
Short-term – Forward Contract	9.00	9.00	[ICRA]A1+; reaffirmed
Total	**290.00**	**390.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for GNA Axles Limited (GAL) factors in its established operational track record and extensive experience of its promoters in the automotive transmission products manufacturing business in the domestic and global commercial vehicle (CV) and off-road equipment (tractors) segments.

GAL reported some moderation in revenue growth in FY2024 and H1 FY2025, led by ongoing slowdown in the domestic tractors industry, lower average realisations amid softening of steel prices and demand slowdown in the export markets (primarily Europe). However, the same is expected to witness some improvement over the near term, on back of higher offtake from customers, both in the domestic and export markets with the company's recent diversification into the passenger vehicles (PV) and light vehicles (LV) segments. Further, the healthy share of business with its customers and ongoing capacity enhancements is also expected to support the growth momentum over the medium term. ICRA also notes GAL's recently announced sizeable capex to be incurred over the next 3-4 years towards capacity enhancements, technology upgradation, foray into component manufacturing for the electric vehicles (EV) segment and solar power projects for captive consumption. Despite partial debt funding of the same, GAL is expected to continue to maintain its healthy financial risk profile, aided by stable operating margins and healthy accrual generation leading to a comfortable capital structure, strong debt protection metrics and adequate liquidity profile. The ratings also continue to factor in GAL's established relationships with its reputed clientele, including original equipment manufacturers (OEMs) and tier-1 auto ancillaries across the globe.

However, the ratings are constrained by high working capital intensity of the business owing to sizeable share of exports and high receivables and inventory cycle. Moreover, its profit margins are exposed to fluctuations in prices of key raw material, however, the same is mitigated to an extent by the availability of a raw material cost pass-through clause with its customers. GAL also remains exposed to high customer concentration risk with its top 10 customers accounting for ~80% of its total revenue in the recent fiscals. However, its established relationships with these customers, with healthy share of business, provide comfort. Also, given that most of its revenue is concentrated in the automotive industry, especially CVs and tractors, it remains susceptible to inherent cyclicality in the industry. However, the recent diversification of revenues into the PV and LV segments, along with ongoing capacity enhancement for the EV segment provide some comfort. Also, as GAL generates over ~32% of its revenues from a US-based tier-1 auto component supplier, it remains exposed to any potential changes in trade tariffs between the US and India, that may be imposed by the upcoming Government in the US. Accordingly, its impact on GAL's earnings will remain a monitorable in the near term.

The Stable outlook on the long-term rating reflects ICRA's expectations that GAL will benefit from its established business position, strong manufacturing set-up and established relationships with key customers. This would help it record steady earnings growth over the medium term and maintain a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established track record supported by extensive experience of promoters in the automotive components industry –GAL is an established automotive components manufacturer with a strong operational track record and strong relationships with a reputed clientele across the globe. The company's strong business position is supported by its major presence in the CV and tractors segments, healthy share of business, and integrated manufacturing set-up. Moreover, the company is promoted by the Singh family, who have an experience of several decades in the automotive components business. GAL also has an experienced management team and industry professionals on its board of directors.

Long standing relationships with reputed clientele – Over the years, GAL has developed a reputed client base of several leading automotive OEMs and tier-1 suppliers in both the domestic and overseas markets. Some of them are Meritor Inc., Dana Commercial Vehicle, John Deere India Private Limited, Mahindra and Mahindra Limited, and Automotive Axles Limited, among others. The company maintains a healthy share of business for its key products — axles, shafts and spindles, aided by its strong manufacturing capabilities and established operational track record.

Segmental and geographic diversification of the revenue stream – GAL's revenues are well diversified, with ~65% share of revenue from the CV segment, while the rest come from the off-highway segment. In FY2024, the company also diversified into the PV and LV segments with few reputed OEMs and tier-1 suppliers of the domestic and export markets as its customers. Further, the company enjoys a healthy share of revenues from the export market (53% in FY2024). Its region-wise sales are dominated by Asia (51% share in FY2024), followed by North America (24%), Europe (15%), South America (10%) and Australia.

Healthy financial risk profile characterised by comfortable capital structure, strong debt coverage metrics and adequate liquidity – The company's financial profile continues to be comfortable, reflected in healthy cash accrual generation, strong capital structure and adequate liquidity profile. Although, its revenue growth witnessed a moderation of 4.6% in FY2024 amid a slowdown in the domestic tractors industry, softening of realisations and global industry headwinds, the same has partially recovered due to voluminal growth in the exports market in H1 FY2025 and diversification into the PV and LV segments. Moreover, the operating margins have also improved in H1 FY2025 to 13.7%, supported by the backward integrated nature of operations, availability of raw material price pass-through, locational cost-saving advantages and healthy share of business. The liquidity position also remains adequate, marked by sufficient cash balances and comfortable cushion in working capital limits with sizeable drawing power. Despite sizeable debt-funded capex plans of the company over the medium term, its financial profile is expected to remain healthy, marked by a sizeable net worth and healthy coverage metrics, with estimated Total Debt/OPBITDA of 1.1 times over FY2025 and FY2026.

Credit challenges

High working capital intensity of the business – Given the integrated nature of manufacturing operations and relatively high transit time due to presence in the exports markets, the receivable cycle and inventory cycle of the company remains high. This has resulted in a higher working capital intensity for the company, reflected in NWC/OI[1] at 35-40% in recent years. The same is expected to remain at similar levels, going forward, owing to steady increase in scale of business. However, bulk of the

[1] *Net working capital/ Operating income*

incremental working capital requirements of the business are expected to be funded through internal accruals, keeping the reliance on external borrowings under check.

High customer concentration risk as top 10 customers account for ~80% of revenues – GAL faces high customer concentration risk with its top 10 customers driving ~80% of its revenue in recent years. The company's business performance is, thus, vulnerable to the performance and market share of its key clients. However, given its established relationships and healthy share of business with these clients, along with single-source supplier status for certain products, the risk is mitigated to an extent. The company is also focused on the addition of new customers and increasing supplies to other business segments such as PV and EV over the medium term, which provide some comfort.

Exposure to raw material price volatility and cyclicality inherent in the automotive sector – GAL's profitability remains vulnerable to fluctuations in prices of its key raw material, steel. However, it has a raw material price increase pass-through mechanism with customers, which comes with a lag. This has led to mitigating such risk for the company and enabling it to largely sustain its profit margins. Moreover, GAL remains exposed to the inherent cyclicality in the CV and tractor industries. However, recent diversification into the PV business is likely to mitigate this risk to an extent. Also, a bulk of GAL's revenues is derived from the export markets, especially North America and Europe, exposing the demand prospects.

Liquidity position: Adequate

GAL's liquidity position is adequate**,** supported by steady internal accrual generation, cash and bank balances of Rs. 39.8 crore (as of September 2024), along with comfortable cushion of Rs. 40-45 crore against sanctioned limits and sizeable drawing power in working capital facilities. While the company has debt-funded capex plans of Rs. 60-80 crore per annum and debt repayment obligations of Rs. 20-30 crore per annum over FY2025 and FY2026, the same can be adequately met through healthy estimated annual cash flows and incremental sanctioned term loans.

Rating sensitivities

Positive factors – ICRA could upgrade GAL's ratings, if the company reports further diversification and strengthening of its business profile, translating into significant growth in its earnings, strengthening of its debt protection metrics and liquidity profile. Specific credit metrics that could result in a ratings upgrade include Total Debt/OPBDITA of less than 1.0 times on a sustained basis.

Negative factors – Negative pressure on GAL's ratings could arise, in case of considerable decline in internal accrual generation, significant debt-funded capex or deterioration in working capital cycle, resulting in weakening of its credit metrics and liquidity position. Specific credit metrics that could result in a ratings downgrade include DSCR of less than 2.5 times on a sustained basis.

Environmental and Social Risks

Environmental concerns – As GAL is not directly exposed to climate transition risks from a likelihood of tightening emission control requirements, with its products being used by various auto industry OEMs, its automotive manufacturer customers remain highly exposed to the same. Accordingly, its prospects are linked to the ability of its customers to meet the tightened emissions requirements. GAL is continually taking measures to support eco-conscious practices and reduce carbon emissions through waste management, sustainable packing choices and electric alternatives.

Social concerns – GAL, like most automotive component suppliers, has a healthy dependence on human capital and as such, retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption-free operations for the entity. GAL has been undertaking initiatives to enhance employee safety, besides education and skill development initiatives for improving their capabilities. Another risk that GAL faces is product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but also harm its reputation in the long term. In this regard, GAL's strong track record in catering to leading automotive players underscore its ability to mitigate these risks to an extent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	-
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GAL. As on March 31, 2024, the company had one subsidiary, which is enlisted in Annexure-II.

About the company

GAL, incorporated in 1993, manufactures forged and machined automotive transmission components such as spindles, drive shafts and axles. GAL is one of the leading auto components and parts providers to major OEMs and tier-1 suppliers, with major presence in the CV and tractor segments in both the domestic as well as export markets. The company is promoted by Mr. Gursaran Singh and family, and has integrated manufacturing units at Hoshiarpur, Punjab, with an installed production capacity of 6.7 million pieces per annum. GAL was listed on the National Stock Exchange and the Bombay Stock Exchange on September 26, 2016.

Key financial indicators (audited)

GAL - Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	1,581.5	1,508.9	787.2
PAT	130.2	100.0	56.3
OPBDIT/OI	14.6%	13.2%	13.7%
PAT/OI	8.2%	6.6%	7.2%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.6
Total debt/OPBDIT (times)	0.9	1.1	1.1
Interest coverage (times)	21.1	17.3	19.4

*Source: Company, ICRA Research; *Unaudited; All ratios as per ICRA's calculations; Amounts 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

	Current year (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Jan 02, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based-Cash Credit	Long Term	199.00	[ICRA]AA- (Stable)	22-Jan-24	[ICRA]AA- (Stable)	-	-	-	-
Fund based - Term Loans	Long Term	181.50	[ICRA]AA- (Stable)	22-Jan-24	[ICRA]AA- (Stable)	-	-	-	-
Non-fund-based limits	Short Term	0.50	[ICRA]A1+	22-Jan-24	[ICRA]A1+	-	-	-	-
Forward Contract	Short Term	9.00	[ICRA]A1+	22-Jan-24	[ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based – Cash Credit	Simple
Long-term – Fund-based - Term Loans	Simple
Short-term - Non-fund based limits	Very Simple
Short-term - Forward Contract	Very 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	Long-term - Fund-based - Cash Credit	-	-	-	199.00	[ICRA]AA-(Stable)
NA	Long-term - Fund based - Term Loans	FY2022	9.0% - 9.5%	FY2029	181.50	[ICRA]AA-(Stable)
NA	Short term - non-fund based limits	-	-	-	0.50	[ICRA]A1+
NA	Short-term - Forward Contract	-	-	-	9.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
GNA Axles Inc, USA	100%	Full Consolidation

Source: GAL annual report

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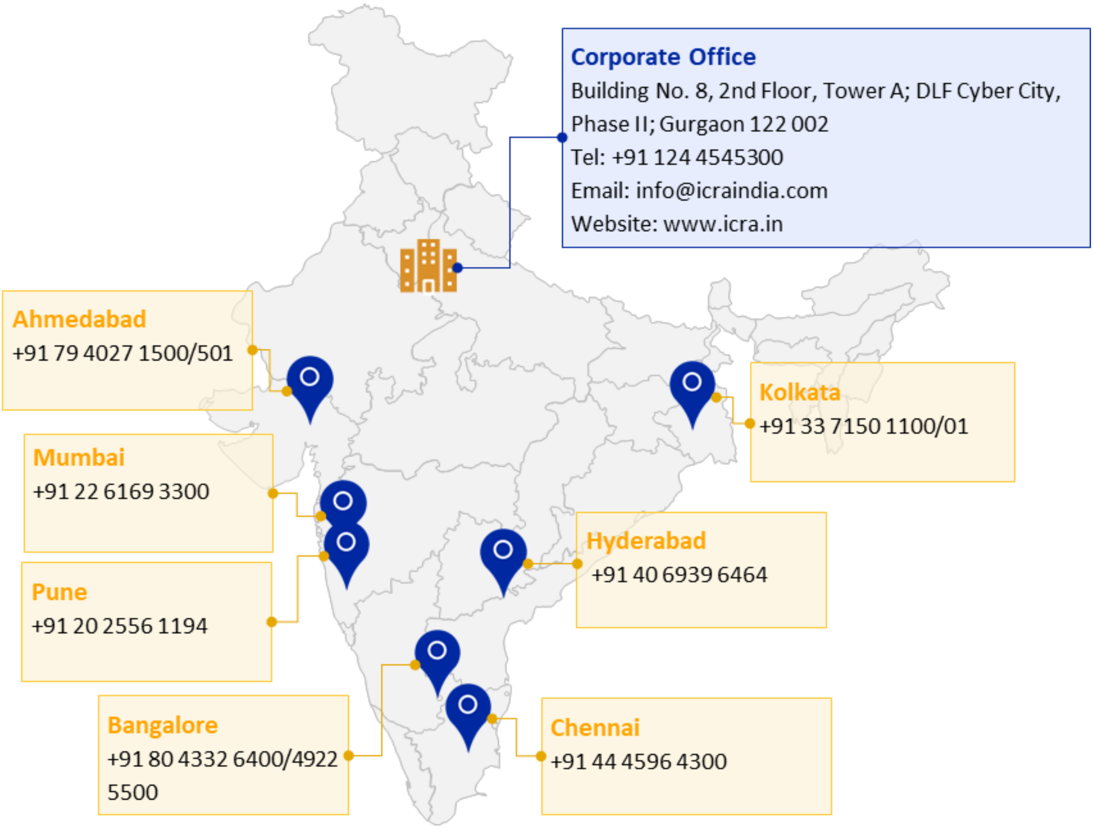

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