

January 22, 2024

GNA Axles Ltd.: [ICRA]AA- (Stable)/[ICRA]A1+; Rating assigned

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to GNA Axles Limited (GAL) factors in its established operational track record and extensive experience of its promoters in the automotive transmission products manufacturing business. Over the years, the company has maintained its strong business position, aided by its sizeable and integrated manufacturing set up with strong manufacturing capabilities, diversification of its earnings aided by presence in the commercial vehicle (CV) and off-road equipment (tractors) segment, along with a healthy share of exports. Leveraging on the same, the company has established relationships with a reputed client base, which includes domestic and global automotive Original Equipment Manufacturers (OEMs) and tier-1 auto ancillaries across the globe. Healthy share of business with most of its customers has translated into steady offtake, which coupled with capacity enhancements has supported the company's growth in recent years. Coupled with relatively stable operating margins, this has led to healthy accrual generation and moderate reliance on external debt. The ratings also factor in the company's comfortable capital structure, strong debt protection metrics and adequate liquidity profile.

The ratings, however, 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. Although the company has ongoing plans to diversify its revenue into passenger vehicles (PVs), the same is expected to scale up gradually.

The Stable outlook on the long-term rating reflects ICRA's expectation 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 – Incorporated in 1946, 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 segment, 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.

Apart from the promoters, GAL has an experienced management team along with seasoned 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 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 among automotive segments, with 60% share of revenue from the CV segment, while the rest come from the off-highway (tractors) segment. Further, the company enjoys a healthy share of revenues from the export market (~55% in recent years). Its region-wise sales are dominated by Asia (54% share in H1 FY2024), followed by North America (22%), Europe (15%), South America (9%) and Australia. Its healthy diversification of segments and geographies insulates its earnings profile from any slowdown in any specific region/segment to some extent. Moreover, the company has plans to manufacture its products for few leading OEMs in the PV segment in the near future, which is expected to support its business diversification.

Healthy financial risk profile characterised by comfortable capital structure, strong debt coverage metrics and adequate liquidity – The company’s revenue growth has witnessed a steady scale up in revenues reflected by a 6-year CAGR of 15.5%, supported by significant growth of 43% and 25% YoY in FY2022 and FY2023, respectively. Revenue growth in H1 FY2024 has remained flat, primarily due to moderation in average realisation in the light of correction in steel prices, even though volumes have grown over this period. Moreover, relatively stable operating margins supported by the backward integrated nature of operations, availability of raw material price pass-through, locational cost-saving advantages and healthy share of business have resulted in healthy accrual generation. Coupled with a sizeable net worth, this has led to relatively low reliance on external debt and strong debt coverage metrics (Total Debt/OPBITDA of 0.9x, interest cover of 21.1x and Total Outside Liabilities/Tangible Net-Worth of 0.6x in FY2023). The company’s financial profile is also underpinned by its adequate liquidity position marked by sufficient cash balances, generation of steady cash flows and comfortable cushion in working capital limits with sizeable drawing power. While some debt-funded capex is estimated in the coming fiscal, the company’s revenue growth is expected to remain steady along with stable accrual generation and comfortable coverage position over the medium term.

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, as reflected by NWC/OI¹ at ~35% 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 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. Additionally, the company is expected to diversify its client base with the addition of new customers and increased supplies to other business segments over the medium term.

¹ Net working capital/ Operating income

Exposure to raw material price volatility and cyclicity 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 resulted in mitigating such risk for the company and enabling it to largely sustain its profit margins. Moreover, GAL remains exposed to the inherent cyclicity in the CV and tractor industry. However, planned scale up of revenues from the PV business over the medium term are likely to mitigate this risk to an extent. Also, a bulk of GAL’s revenues are derived from export markets. Accordingly, its prospects remain linked to global demand conditions, especially in the North American market, which constituted ~22% of its revenues in H1 FY2024.

Liquidity position: Adequate

GAL’s liquidity position is **adequate**, supported by steady internal accrual generation, cash and bank balances of Rs. 44.8 crore (as of September 2023), along with comfortable cushion of ~Rs. 30-40 crore against sanctioned limits and sizeable drawing power in working capital facilities. While the company has debt-funded capex plans of Rs. 50-60 crore per annum and debt repayment obligations of Rs. 20-25 crore per annum over FY2024 and FY2025, the same can be adequately met through healthy estimated annual cash flow from operations of Rs. 80-120 crore, in addition to 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, result 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 – Since 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 Rating Methodology for Auto Components
Parent/Group support	-
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GAL. As on March 31, 2023, the company had one subsidiary, which is enlisted in Annexure II.

About the company

Incorporated in 1993, GAL is engaged in manufacturing 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 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 Bombay Stock Exchange on September 26, 2016.

Key financial indicators (audited)

GAL – Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	1,265.7	1,581.5	778.2
PAT	88.8	130.2	60.8
OPBDIT/OI	13.9%	14.6%	14.7%
PAT/OI	7.0%	8.2%	7.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	0.7
Total debt/OPBDIT (times)	1.3	0.9	0.9
Interest coverage (times)	15.7	21.1	19.5

Source: Company, ICRA Research; *Unaudited; 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	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Jan 22, 2024	-	-	-	
1 Fund-based-Cash Credit	Long term	199.00	-	[ICRA]AA-(Stable)	-	-	-	
2 Fund based - Term Loans	Long term	81.50	81.50	[ICRA]AA-(Stable)	-	-	-	
3 Non-fund-based limits	Short term	0.50	-	[ICRA]A1+	-	-	-	
4 Forward Contract	Short term	9.00	-	[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	81.50	[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 of FY2023

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