

Rating Advisory

October 05, 2018 | Mumbai

GNA Axles Limited

Advisory as on October 05, 2018

This rating advisory is provided in relation to the rating of GNA Axles Limited

The key rating sensitivity factors for the rating include:

- Revenue and profitability
- Capex plans and their funding
- Operating margin, and ability to pass on raw material price increases to customers

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from GNA Axles Ltd (GNA) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If GNA continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the company

Established in 1993, GNA manufactures rear axle shafts, spindles, and spindle shafts for OEMs and tier-1 suppliers. The company is a leading manufacturer of axles in India, with installed capacity of 35 lakh axles per annum. GNA is listed on the Bombay Stock Exchange and the National Stock Exchange.

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Rating Rationale

November 29, 2017 | Mumbai

GNA Axles Limited

Rating outlook revised to 'Positive'; short-term rating upgraded to 'CRISIL A1'

Rating Action

Total Bank Loan Facilities Rated	Rs.180 Crore
Long Term Rating	CRISIL A-/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Short Term Rating	CRISIL A1 (Upgraded from 'CRISIL A2+')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its outlook on the long-term bank facilities of GNA Axles Ltd (GNA) to **'Positive'** from 'Stable', and reaffirmed the rating at **'CRISIL A-'**, and has upgraded the rating on the short-term facilities to **'CRISIL A1'** from 'CRISIL A2+'.

The outlook revision reflects CRISIL's belief that GNA's business risk profile will benefit over the medium term backed by proposed ramp-up of manufacturing capability for which the company is undertaking significant capital expenditure (capex), largely funded through initial public offering (IPO) proceeds. Capex of Rs 100 crore spread over two phases in fiscals 2018 and 2019 will help GNA cater to the passenger vehicle segment, wherein the company foresees healthy demand from North America and from its existing key customer Mahindra & Mahindra Ltd ('CRISIL AAA/Stable/CRISIL A1+'). Operating revenue which had muted growth in fiscal 2017 because of slowdown in North America (which contributed 15% to revenue in fiscal 2017 against 25% in the previous fiscal), rose 11% in the first half of fiscal 2018 over the corresponding period of the previous fiscal. The growth was primarily because of increasing sales in overseas markets. However, large export stretches the debtor cycle, as the company provides extended credit to key export customer Meritor Inc (accounts for 43% of export). Also, the company had sizeable debtors of more than 6 months of Rs 20.67 crore as on March 31, 2017, against Rs 8.33 crore a year earlier. Though increase in capacity, rising demand from existing customers, and penetration in new geographies is likely to support revenue growth, the extent and sustenance of growth will be key monitorables. CRISIL believes balanced growth in domestic and overseas markets will help control working capital cycle.

The upgrade of the short-term rating is on account of expected healthy cash accrual of Rs 55-70 crore against debt obligation of Rs 18.4 crore annually. Healthy accrual resulted in moderate bank line utilisation of 71% over the 18 months through September 2017, despite large working capital requirement. Generation of adequate cash accrual, post meeting the debt obligation, should help reduce dependence on creditors, and thus improve working capital management. Healthy build-up in unencumbered liquid surplus (Rs 53.71 crore as on September 30, 2017) is likely to support GNA's capex plan till fiscal 2019.

Key Rating Drivers & Detailed Description

Strengths

* Established relationships with original equipment manufacturers (OEMs) and diversified geographical presence

GNA came into operations in 1993. Since inception, the company has been dealing with major OEMs and has been supplying to a broad customer base both in India and abroad (it has presence in 13 countries across 5 continents) with domestic and international sales accounting for 55% and 45%, respectively, of revenue. Longstanding and established relationships of over a decade have resulted in increasing demand for GNA's products. Its top 5 customers contribute 67% to revenue from the domestic market and 91% from the international market. Despite, customer concentration risk inherent in the business, established relationships ensure assured sales while diversified geographical presence mitigates the impact of slowdown in any particular region.

* Leading market position in the off-highway segment

While its products are used in on-highway and off-highway vehicles, GNA is the market leader in the off-highway segment, and meets 80% of rear axle shaft requirement of OEMs in India, primarily because of longstanding associations with all major OEMs. Furthermore, to leverage its business relationships, GNA plans capex to tap the passenger vehicle segment, thus diversifying its end-user segment. However, the project is at a nascent stage. CRISIL believes successful penetration in the passenger vehicle segment will support revenue growth and strengthen business risk profile.

* Healthy financial risk profile

Networth was healthy at Rs 284 crore as on March 31, 2017, up from Rs 136 crore a year earlier, driven by IPO proceeds and sustained accretion to reserves. Consequently, total outside liabilities to tangible networth ratio improved to 0.99 time from over 2 times. Planned capex of Rs 100 crore will be funded in a prudent mix of debt and equity, keeping capital structure comfortable. Debt protection metrics have improved significantly, with interest coverage ratio at 6.66 times in fiscal 2017 against 5 times in the previous fiscal, driven by reduction in interest rate post listing. With healthy accretion to reserves, improving working capital cycle, and limited debt, the financial risk profile should improve over the medium term.

Weakness

* Working capital-intensive operations

Gross current assets were at 230 days (excluding cash and bank balance) as on March 31 2017, primarily because of large inventory of 93 days and longer credit period in the overseas market, resulting in receivables of 128 days. The company funds part of the working capital requirement through considerable credit from suppliers (payables of 179 days as on March 31, 2017). Generation of healthy accrual should help reduce dependence on creditors. Effective management of working capital amid significant ramp-up in operations will remain a key monitorable.

* Susceptibility to volatile raw material prices

Long operating cycle and sizeable product portfolio necessitate large inventory of 80-90 days. The price of steel, the basic raw material, is volatile and affected by the global macroeconomic scenario. The large inventory exposes GNA to adverse movements in raw material price.

Outlook: Positive

CRISIL believes GNA will benefit from its proven track record in manufacturing axles and will benefit from leveraging its longstanding and established relationships with OEMs for diversifying its end-user segments. The ratings may be upgraded if there is above-average revenue growth and improvement in working capital cycle, with continued healthy profitability. The outlook may be revised to 'Stable' if decline in profitability, stretch in working capital cycle, or larger-than-expected capex weakens the financial risk profile.

About the Company

Established in 1993, GNA manufactures rear axle shafts, spindles, and spindle shafts for OEMs and tier-1 suppliers. The company is a leading manufacturer of axles in India, with installed capacity of 35 lakh axles per annum. GNA is listed on the Bombay Stock Exchange and the National Stock Exchange.

Key Financial Indicators

As on/for the period ended March 31		2017	2016
Revenue	Rs crore	513.41	508.52
Profit after tax (PAT)	Rs crore	28.19	25.5
PAT margin	%	5.49	5.01
Adjusted debt/adjusted network	Times	0.41	1.02
Interest coverage	Times	6.66	5.08

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	0.5	CRISIL A1
NA	Cash Credit*	NA	NA	NA	100	CRISIL A-/Positive
NA	Letter of Credit	NA	NA	NA	15.0	CRISIL A1
NA	Term Loan	NA	NA	Mar-21	44.62	CRISIL A-/Positive
NA	Proposed Long-Term Bank Loan Facility	NA	NA	NA	19.88	CRISIL A-/Positive

*Interchangeable with Packing credit in foreign currency upto Rs.60 cr

Annexure - Rating History for last 3 Years

	Current			2017 (History)		2016		2015		2014		Start of 2014
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	164.5	CRISIL A-/Positive		No Rating Change	31-12-16	CRISIL A-/Stable	20-07-15	CRISIL BBB+/Stable		No Rating Change	CRISIL BBB/Stable
						18-10-16	Suspended					
Non Fund-based Bank Facilities	LT/ST	15.5	CRISIL A1		No Rating Change	31-12-16	CRISIL A2+	20-07-15	CRISIL A2		No Rating Change	CRISIL A3+
						18-10-16	Suspended					

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	.5	CRISIL A1	Bank Guarantee	.5	CRISIL A2+
Cash Credit*	100	CRISIL A-/Positive	Cash Credit	40	CRISIL A-/Stable
Letter of Credit	15	CRISIL A1	Export Packing Credit	40	CRISIL A-/Stable
Proposed Long Term Bank Loan Facility	19.88	CRISIL A-/Positive	Letter of Credit	10	CRISIL A2+
Term Loan	44.62	CRISIL A-/Positive	Proposed Long Term Bank Loan Facility	8.5	CRISIL A-/Stable
--	0	--	Term Loan	81	CRISIL A-/Stable
Total	180	--	Total	180	--

*Interchangeable with Packing credit in foreign currency upto Rs.60 cr

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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