September 14, 2023

Gna Gears Limited: Rating reaffirmed; 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 Loan	99.63	125.00	[ICRA]BBB reaffirmed; Outlook revised to Stable from Positive
Long-term – Fund-based – Working Capital	80.00	80.00	[ICRA]BBB reaffirmed; Outlook revised to Stable from Positive
Long-term – Unallocated	25.37	0.00	-
Total	**205.00**	**205.00**	

**Instrument details are provided in Annexure-I*

Rationale

The change in outlook to Stable from Positive factors in the sizeable debt-funded capex being incurred by GNA Gears Limited (GNAGL or the company), which are expected to keep credit metrics under pressure in the near to medium term as ramp up in returns is expected to be gradual. While the company enjoys a healthy share of business with its original equipment manufacturer (OEMs), currently the domestic demand scenario is modest for the tractor segment, which is one of key segments for the company. Nevertheless, the rating reaffirmation factors in the established long-term relationships with clientele across segments, including tractors, commercial vehicles (CVs) and construction equipment (CE). Further, GNAGL is in the process of acquiring new business and is expected to shore up a healthy order book in the medium term. The ratings continue to favourably factor in the long experience of the company's promoters in the auto ancillary industry.

The ratings are, however, constrained by GNAGL's moderately high customer concentration risk and vulnerability to demand in its end-user sectors. The ratings remain constrained by the vulnerability of the company's margins to raw material prices. The company's debt levels are expected to rise over FY2023 and FY2024, since it is availing term debt to add to its capacity and upgrade its infrastructure. Thus, given the increase in debt obligations, the company's ability to generate commensurate earnings in a timely manner will be critical.

Key rating drivers and their description

Credit strengths

Healthy share of business with OEMs in tractors segment – The company is owned and managed by Mr. Gursaran and family, who have significant experience in the auto ancillary business. GNAGL manufactures automotive gear and gear boxes. It has established business relationships and a healthy share of business with reputed tractor OEMs such as Mahindra & Mahindra (M&M) and International Tractors Limited (ITL) across product subcategories. GNAGL is also present in the CE sector with established relationships with JCB India Limited, as well as in the CV segment. As part of the GNA Group, the company enjoys some operational synergies in terms of better bargaining power with both its customers and suppliers.

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, which includes gears and shafts of various sizes. Moreover, it has been upgrading its manufacturing facility to expand its product portfolio and address its client requirements. Consequently, GNAGL witnessed a healthy revenue growth of 17% to reach a turnover of Rs. 526 crore in FY2023. It plans to gain business in new segments from a key client and is also targeting the export space across various segments.

Credit challenges

Pressure on coverage metrics given sizeable debt-funded capex as returns generation likely to be gradual – The company is in the business of forging and machining automotive gears and related parts, which require significant capex for new capacity addition as well as regular maintenance. The company incurred higher than anticipated capex in FY2023 for plant upgradation as well as capacity expansion, particularly in Q4 of the fiscal. The capex is expected to continue for FY2024 and the company's coverage indicators, such as DSCR, are expected to moderate in FY2024 owing to high debt servicing as the ramp-up of new capacities will take time. Thus, GNAGL's ability to generate timely and commensurate returns on completion of the capex will be crucial to improve the coverage metrics subsequently.

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 increase in raw material prices to its customers, although with a lag. In addition, in FY2023, the company also incurred tooling and sampling costs for a specific customer, which impacted its operating profits; however, this is expected to generate new business, going forward.

Exposed to vulnerability in demand from end-user sectors amid high competition – The company derives most (85-90%) of its revenues from the tractor and CE industries, which are exposed to demand cyclicality. While the tractor industry remains exposed to fluctuations in demand with sensitivity to monsoons and farmer sentiments, growth in the CE business largely remains linked to economic activity. Moreover, GNAGL faces customer concentration risk, which has marginally increased with its top five customers driving 65% of its revenues in FY2023, over 61% in FY2022, owing to increased revenue contribution from M&M. 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 has adequate liquidity owing to Rs. 30-35 crore of unutilised working capital limits, and modest free cash levels. The company also has sizeable, planned annual capex of Rs. 30-40 crore against which it holds undrawn term loans. The company has debt repayment obligations of Rs. 28-30 crore in FY2024, which should be adequately addressed by its existing cash 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 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	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 is a part of GNA Group, which has been present in the auto ancillary business since 1946. The company is completely owned by Mr. Gursaran and family. GNAGL is primarily engaged in manufacturing automotive gears, which have application in diversified sectors such as tactors, CVs and construction vehicles. The company also manufactures axles and shafts for the domestic CV replacement market.

The company's manufacturing facility is in Mehtiana, Punjab, which performs all functions in-house, including forging, heat treatment, dry cutting, and machining. The company generates nearly 86-88% of its revenues from the domestic OEM segment, followed by exports (7-8%) and the rest from the replacement segment. The OEM segment is the primary revenue contributor in the domestic market with its top three customers being M&M, JCB and New Holland Fiat India Private Limited (NHF). The tractor segment is the largest contributor to the company's sales (65-70%), followed by the CE (~20-22%) and CV (9-12%) segments.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	450.0	525.9
PAT	21.5	23.1
OPBDIT/OI	12.1%	10.9%
PAT/OI	4.8%	4.4%
Total outside liabilities/Tangible net worth (times)	1.6	1.9
Total debt/OPBDIT (times)	2.6	3.2
Interest coverage (times)	4.8	6.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Sep 14, 2023	Nov 24, 2022	Sep 09, 2021	Apr 21, 2021	-
1	**Term Loan**	Long Term	125.00	98.7	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	-
2	**Cash Credit**	Long Term	80.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	-
3	**Unallocated**	Long Term	0.00	-	-	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	-

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	8.40%	NA	61.00	[ICRA]BBB (Stable)
NA	**Cash Credit – II**	NA	8.40%	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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