



## Press Release

Press Release

**G.G. Automotive Gears Limited**

April 21<sup>st</sup>, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Facility – Cash Credit	14.50	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Long Term Fund Based Facility – Term Loans	6.38	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
3.	Long/Short Term Bank Facility – Bank Guarantee	3.50	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) & IVR A3 (IVR Single A Three)
	<b>Total</b>	<b>24.38</b>	

**Details of Facilities are in Annexure 1**

### Detailed Rationale

The rating derives strength from established track record of operations and experienced management, Y-o-Y improvement in overall operational & financial risk profile. However, the rating strengths are partially offset by working capital intensive operations and tender based business.

### Key Rating Sensitivities:

- **Upward Factor**
  - Substantial improvement in scale of operations while maintaining the profitability margins and the debt protection measures.
- **Downward Factor**
  - Any decline in the revenue and/or profitability.
  - Significant deterioration in debt protection parameters

**Key Rating Drivers with detailed description**



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### Key Rating Strengths

- ***Established track record of operations and experienced management:***

GG Automotive Gears Limited (GGAG) was established in the year 1974. The promoter along with the directors on the board has extensive experience in the aforementioned industry. Backed by their experience, they have been able to maintain long-term relations with the Indian Railways and have also been able to identify opportunities in backward integration. The company also caters as Original Equipment Manufacturers (OEMs) to Integral Coach Factory, Crompton Greaves Ltd, Kirloskar Electric Company, Paharpur Cooling Towers and BHEL. The directors are supported by a team of experienced and qualified professionals

- ***Y-o-Y improvement in overall operational & financial risk profile:***

The revenues of the company have grown with (CAGR) of almost 40% from FY2017 to FY2019. The company has booked revenue of Rs. 55.42 Crore in FY19 as against to Rs. 42.52 Crore in FY18 and 28.26 Crore in FY17. This is largely due to its long standing association with the Indian Railways. The company has recorded revenue of Rs. 43.66 Crore for 9MFY20 (December 2019). The operating margins stand high at 17.92% in FY19 and 18.87% in FY18. The PAT margins increased to 6.49% in FY19 when compared to 6.19% in FY18. This is mainly due to the substantial improvement in the sales generated over the years with the fixed cost being constant and commencing of backward integration. Also, the order book position outstanding as on March 2020, stands at Rs. 21.86 Crore, of which majorly the supply has to be made by December 2020.

The company adjusted net worth stood at 25.65 Crore as on March 31, 2019 as against Rs. 22.06 Crore as on March 31, 2018, owing to comfortable accretion to reserves due to the healthy profitability. The adjusted net worth includes unsecured loans amounting to Rs. 4.95 Crore as on March 31, 2019 from promoters, which are subordinated to bank debt. The gearing level improved to 0.99x as on March 31, 2019 compared to 1.12x as on March 31, 2018. The interest coverage ratio stood at 4.20x as on March 31, 2019 as against 4.99x as on March 31, 2018.



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### **Key Rating Weaknesses**

- ***Working capital intensive operations:***

GGAG's operations remain highly working capital intensive in nature owing to the stretched receivables especially from Government customers that account for a major share of its revenues. The same has led to high utilization of its working capital limits. The average collection period stood at 92 days in FY19 compared to 72 days in FY18.

- ***Tender based business:***

The company deals with clients, which provide orders on tender basis. The company thus has to be successful in bidding the tenders. In the medium term, the company's ability to bid for large orders and qualifying for the same is a factor to be seen. Also, the company manufactures and supplies majorly to the Indian Railways, leading to limited bargaining power in terms of pricing. However, given the promoters' established experience & relations partially mitigates the risk. Also, these tender based orders provide revenue visibility for the medium term.

### **Analytical Approach & Applicable Criteria:**

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Adequate**

The company has adequate liquidity marked by adequate liquid cash balance to its maturing debt obligations for the medium term. The operations are moderately working capital intensive which has led to high reliance on working capital limits. The current ratio of the company stands at 1.22x as on March 31, 2019.

### **About the Company**

Incorporated in February 1974, GG Automotive Gears Limited (GGAG) acts a leading manufacturer of manufacturing of traction gears and pinions, based out of Dewas, Madhya Pradesh. The company undertakes manufacturing of traction gears as a strategic shift from its traditional business of automotive gears.



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### Financials:

For the year ended/ As On*	(Rs. Crore)	
	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	42.52	55.42
EBITDA	8.02	9.93
PAT	2.63	3.60
Total Debt	24.74	25.42
Adjusted Net-worth <sup>^</sup>	22.06	25.65
EBITDA Margin (%)	18.87	17.92
PAT Margin (%)	6.19	6.49
Overall Gearing Ratio (x)	1.12	0.99

\* Classification as per Infomerics' standards

<sup>^</sup> Subordinated Unsecured Debt factored as Quasi Equity

**Status of non-cooperation with previous CRA: N.A**

**Any other information: N.A**

### Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – Cash Credit	Long Term	14.50	IVR BBB-/Stable	--	--	--
2.	Long Term Fund Based Facility – Term Loans	Long Term	6.38	IVR BBB-/Stable	--	--	--
3.	Long/Short Term Bank Facility – Bank Guarantee	Long Term/ Short Term	3.50	IVR BBB-/Stable & IVR A3	--	--	--

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).



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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	14.50	IVR BBB-/Stable
Long Term Fund Based Facility – Term Loans	NA	NA	March 2022	6.38	IVR BBB-/Stable
Long/Short Term Bank Facility – Bank Guarantee	NA	NA	NA	3.50	IVR BBB-/Stable & IVR A3