

**Press Release****GS Auto International Ltd****August 22, 2019****Rating**

<b>Instrument / Facility</b>	<b>Amount (Rs. crore)</b>	<b>Ratings</b>	<b>Rating Action</b>
Long Term Bank Facilities (Including proposed limits of Rs.24 crore)	51.25	IVR B+/Stable (IVR Single B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities (Including proposed limits of Rs.6 crore)	11.50	IVR A4 (IVR A Four)	Assigned
<b>Total</b>	<b>62.75</b>		

**Details of Facilities are in Annexure 1****Detailed Rationale**

The aforesaid ratings assigned to the bank facilities of GS Auto International Ltd (GSAIL) derives comfort from the long-standing experience of the promoters with long track record of operations, established brand name with strong dealer network and established clientele. However, the rating strengths are tempered by intense competition, susceptibility of operating margin to volatile input prices, below average financial risk profile marked by stretched liquidity, working capital intensive operations and its fortunes being tied to the outlook of commercial vehicles. Sharp growth in scale of operations with improvement in profitability, outlook for commercial vehicles, efficient working capital management and gearing level are the key rating sensitivities.

**List of Key Rating Drivers with Detailed Description****Key Rating Strengths****Experienced promoters with long track record of operations**

GSAIL has been in the auto component industry for over eight decades. The company is engaged in the manufacturing of automotive suspension and fastening components for OEMs and replacement market. The day to day operations of the company are looked after by Mr. Jasbir Singh Ryait (Chairman cum Jt. Managing Director) and Mr. Surinder Singh Ryait (Managing Director), who each have an experience of over three decades in the said line of business.

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### **Established clientele**

The company, over the years has developed established relationship with large OEMs across the country.

### **Established brand name with strong dealer network**

The company mainly caters to the domestic market under the brand name of “GS”. Further, the company has a pan India presence backed by a strong dealer network comprising more than 500 dealers across the country from which the company derives around 60-65% of its overall sales.

### **Key Rating Weaknesses**

#### **Intense competition**

The company is engaged in the manufacturing of various auto components. With the growing number of players in India and abroad, this creates a pressure on market participants to supply quality goods at competitive prices. Further, other South East Asian countries are rapidly evolving in terms of technology, value engineering and price competitiveness – thereby intensifying competition for the company and the industry.

#### **Susceptibility of operating margin to volatile input prices**

Steel is the major raw material used by the company. The steel prices are driven by demand supply in the international markets and are susceptible to volatility. Besides, power plays a significant role in the manufacturing process of the company. Any revision in power tariff renders the company’s operations susceptible to volatility in operating profit.

#### **Below average financial risk profile marked by stretched liquidity**

Total operating income (TOI) of the company grew at a CAGR of ~14% over FY17-FY19. The company has been incurring PAT losses for the last three years though there were no cash losses in FY18 and FY19. The profitability of the company is largely affected on account of under absorption of fixed overheads emanating from low capacity utilization of the Jamshedpur unit. The EBIDTA margin of the company though witnessed an improving trend, remained thin over the aforesaid period. The current ratio as on the last three account closing dates was below unity reflecting poor liquidity position of the company. Debt Service Coverage Ratio has been below unity in the last three fiscals on account of the company

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having sizeable repayment obligations against which it did not earn sufficient GCA. However, the company has managed to service its debt obligations by taking advance payments from Dealers/OEMs (in lieu of cash discounts further affecting the profitability of the Company). During Q1FY20, the company has earned a net profit of Rs. 0.03 crore (Rs.0.68 crore in Q4FY19) on a revenue of Rs.33.90 crore (Rs.37.64 crore in Q4FY19).

### **Working capital intensive operations**

The company's operations are working capital intensive due to funds blocked up in debtors. The established OEMs generally avail a credit period of around 90 days. The dealers (replacement market) avail a credit period of around 60 days. This apart, the company places order for consumption of raw material in bulk a time; thus, blocking funds in inventory. However, the company optimises its working capital cycle by availing credit period from suppliers (about 50-60 days on an average). The average utilisation of GSAIL remained high at 95% during the past 12 months ended May, 2019.

### **Fortunes tied to outlook of commercial vehicles**

Given that the company is engaged in the manufacturing of suspension and fastening components mainly for utility and commercial vehicles, its outlook is directly linked to that of the commercial vehicle sector. The commercial vehicle sector is staring at a weak outlook over the near term as multiple factors like tight liquidity conditions, revision in axle load norms resulting in excess capacity may impact demand in the near term.

**Analytical Approach:** Standalone.

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity**

Poor liquidity marked by lower accruals when compared to projected repayment obligations along with below unity current ratio as on March 31, 2019 and highly utilized bank limits during the last 12 months ended May, 2019. This could constrain the ability of the company to repay its debt obligations on a timely basis.

### **About the Company**

GS Auto International Limited (GSAIL) was initially set up as a proprietorship concern by Mr. Gurmukh Singh in the year 1938. Later in 1973, the firm was reconstituted as a Private Limited Company and named "Gurmukh Singh & Sons Pvt Ltd". Subsequently in 1983, the

## Infomerics Valuation And Rating Pvt. Ltd.

firm was reconstituted as a Public Limited Company and named “GS Auto International Limited”. The company manufactures automotive suspension and fastening components for utility vehicles, commercial vehicles, multi axle vehicles, trailers and special purpose vehicles. It has two manufacturing units located at Ludhiana and Jamshedpur. The Ludhiana unit can produce 10,000 TPA of machined, hot and cold forged, and casting (ferrous and non-ferrous) automotive components. The Jamshedpur unit can produce 12,000 TPA of SG Iron casting components.

### Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	130.94	153.91
EBITDA	3.31	7.62
PAT	-3.74	-0.74
Total Debt	36.19	28.77
Tangible Net worth	26.68	25.84
EBITDA Margin (%)	2.53	4.95
PAT Margin (%)	-2.81	-0.48
Overall Gearing Ratio (x)	1.36	1.11

\*Classification as per Infomerics’ standards.

### Status of non-cooperation with previous CRA:

CRISIL has moved the rating of GSAIL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 23, 2018.

### Any other information: Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	Long Term	27.25	IVR B+/ Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Proposed	Long Term	24.00	IVR B+/ Stable Outlook	-	-	-

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3.	Short Term Non-Fund Based Limits – LC/BG	Short Term	5.50	IVR A4	-	-	-
4.	Short Term Non-Fund Based Limits- Proposed	Short Term	6.00	IVR A4	-	-	-

**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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Long Term Fund Based Limits–Cash Credit	-	-	-	27.25	IVR B+/ Stable Outlook
Long Term Fund Based Limits–Proposed	-	-	-	24.00	IVR B+/ Stable Outlook
Short Term Non-Fund Based Limits–LC/BG	-	-	-	5.50	IVR A4
Short Term Non-Fund Based Limits–Proposed	-	-	-	6.00	IVR A4