Press Release

GS Auto International Ltd

November 19, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	32.25 (reduced from Rs. 51.25)	IVR B+ / Stable Outlook (IVR Single B Plus with Stable Outlook)	Reaffirmed
Short Term Bank Facilities	5.50 (reduced from Rs. 11.50)	IVR A4 (IVR A Four)	Reaffirmed
Total	**37.75**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of GS Auto International Limited continues to derive 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, these rating strengths are offset by intense competition in the industry, susceptibility of operating margin to volatile input prices, weak financial risk profile marked by stressed liquidity with sharp drop in scale of operation in FY20 and continuous net loss from operation. The ratings also note its working capital-intensive nature of operations, stretched liquidity and its fortunes being tied to the outlook of commercial vehicles.

Key Rating Sensitivities:

Upward factors

- Substantial Improvements in the financial position of the company with improvement in its scale of operations and profitability
- Improvement in the capital structure and/or improvement in debt protection metrics.
- Improvement in liquidity position with improvement in its operating cycle.

Downward factors

- Further decline in scale of operations and/or profitability due to unfavorable market conditions.
- Deterioration in gearing and/or debt coverage metrics.

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 last 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 and Mr. Surinder Singh Ryait (Managing Director), who each have an experience of over three decades in the said line of business.

Established clientele

The company, over the years has developed established relationship with large OEMs like Tata Motors Ltd, SML ISUZU Ltd., VE Commercial vehicles limited, Hindustan Motors Ltd., Daimler India Commercial Vehicles, etc.

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.

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 coming up in terms of technology, value engineering and price competitiveness – thereby intensifying competition for the company and the industry.

Weak financial risk profile marked by stressed liquidity with sharp drop in scale of operation in FY20 and continuous net loss from operation

Total operating income (TOI) of the company has declined from Rs.153.91 crore in FY19 to Rs.83.92 crore in FY20 indicating a decline by ~45% mainly due to decline in demand from large customers due to transition from BS IV to BS VI models and overall sub-dude market conditions. Despite having operational profit during the past three years the company has been making net losses for the last three years due to high capital charges (depreciation and interest expenses) and has made a net loss of Rs.2.65 crore in FY20. The profitability of the company is largely affected on account of under absorption of fixed overheads emanating from low-capacity utilisations from the Jamshedpur unit. The EBIDTA margin of the company though witnessed an improving trend remained thin over the aforesaid period. The interest coverage ratio of the company stood at 1.34 times in FY20. The current ratio as on the last three account closing dates was below unity reflecting poor liquidity position of the company and stood low at 0.62 times as on March 31,2020. During Q1FY21, the company has achieved a turnover of ~Rs.5.30 crore with a net loss of Rs.0.91 crore.

Working capital intensive operations

The company's operations are working capital intensive as its major fund remained blocked in debtors. The established OEM's 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). During FY20, the company has witnessed elongation in its operating cycle from 72 days in FY19 to 116 day in FY20. The moderation was mainly due to increase in stock holding and delay in cash collection from its debtors. The average utilisation of GSAIL remained high at around 96% during the past 12 months ended Sep 2020.

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 rates renders the company's operations susceptible to volatility in operating profit.

Fortunes tied to outlook of commercial vehicles

Given 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 vehicles sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The firm's liquidity position remains stretched marked by low current ratio standing at 0.62 times in FY20. GCA of the company stood low at Rs.0.72 crores in FY20. Further, its bank limits are highly utilized to the extent of ~96% on an average during the past 12 months ended on Sept 2020 indicating a moderate buffer. The company had also availed the moratorium benefits.

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 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.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	153.91	83.92
Total Income	154.35	84.81
EBITDA	7.62	4.38
PAT	(0.74)	(2.65)
Total Debt	28.77	28.43
Tangible Net worth	25.80	22.74
EBITDA Margin (%)	4.95	5.22
PAT Margin (%)	(0.58)	(4.10)
Overall Gearing Ratio (x)	1.12	1.25

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

Brickwork Ratings had 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 December 19, 2020.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. 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.	Cash Credit		27.25	IVR B+ / Stable	IVR B+ / Stable	-	-

Sr. 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
2	Cash Credit (Proposed)	Long Term	5.00	Outlook (Reaffirmed)	Outlook (August 22, 2019)		
3.	Letter of Credit	Short Term	5.00	IVR A4 (Reaffirmed)	IVR A4 (August 22, 2019)	-	-
4.	Bank Guarantee		0.50			-	-

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.

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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.

unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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 Bank Facilities – Cash Credit	-	-	-	27.25	IVR B+ / Stable Outlook
Long Term Bank Facilities – Cash Credit (Proposed)	-	-	-	5.00	IVR B+ / Stable Outlook
Short Term Bank Facilities – Letter of Credit	-	-	-	5.00	IVR A4
Short Term Bank Facilities – Bank Guarantee	-	-	-	0.50	IVR A4