



Press Release

G. G. Automotive Gears Limited

September 15, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facility – Term Loan	3.95 (enhanced from 3.91)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Bank Facility – Cash Credit	17.00 (enhanced from 14.50)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Long Term/ Short Term Bank Facility – Bank Guarantee	3.50	IVR BB+/ Stable; IVR A4+ (IVR Double B Plus with Stable Outlook; IVR A Four Plus)	Reaffirmed	Simple
Total	24.45 (Twenty-Four Crore and Forty- Five Lakh Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of G. G. Automotive Gears Limited (GGAG) continues to draw comfort from its experienced directors and management team, established track record of operations and improvement in scale of operations and profitability margins in FY22.

However, the ratings strengths are partially offset by moderate scale of its operations, moderately leveraged capital structure and moderate debt protection metrics, susceptibility of margins to volatility in raw material prices, working capital intensive operations and tender based business.



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Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced directors & management team

The company is being managed by experienced directors and promoters. Collectively, they have rich experience in the industry. Mr Kennedy Gajra, Chairman and MD has more than 30 years of experience in manufacturing, marketing and administration in Gear Industry. He has got good exposure of ASEAN and other international market, while handling exports of Gears for 23 years. Mr. Anmol, Fourth-Generation Entrepreneur, has more than 5 years of experience in Gear Industry

The company has a team of experienced and capable professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience in the current line of business.

Established track record of operations

The company 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



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caters as Original Equipment Manufacturers (OEMs) to Integral Coach Factory, Crompton Greaves Ltd, Kirloskar Electric Company, Paharpur Cooling Towers and BHEL.

Improvement in Scale of Operations and Profitability Margins though the same remained moderate

GGAG's total operating income improved by 58% Y-o-Y i.e. from Rs. 30.06 Crore in FY21 to Rs. 47.51 Crore in FY22 on account of higher execution of orders, though the scale of operations continued to remain moderate. EBITDA margin increased by 577 bps from 6.41% in FY21 to 12.18% in FY22. PAT margin also increased to 0.87% in FY22 as against net loss in FY21. The GCA of the company for FY22 is Rs. 3.58 Crore (FY21: Rs. 0.18 Crore). In its Q1FY23 results company has achieved a Total Income of Rs. 17 Crore (Q1FY22: Rs. 9.84 Crore) and Net Profit for the same period is Rs. 0.31 Crore (Q1FY22: Rs. 0.26 Crore)

Key Rating Weaknesses

Moderately leveraged capital structure and moderate debt protection metrics

Company's capital structure remained moderately leveraged marked by overall gearing ratio of 1.58x as on March 31, 2022 (March 31, 2021: 1.35x) and Long term debt-equity of 0.74x as on 31 March 2022 as against 0.81x as on 31 March 2021. TOL/TNW stood at 2.20 times as on 31 March 2022 and Total Debt/GCA is 8.94 years in FY22. Interest coverage ratio was 2.47x in FY22 as against 0.94x in FY21.

Susceptibility of margins to volatility in raw material prices

Numerous non-ferrous & ferrous alloys are used as a raw material for automotive application in this industry. The prices of these raw materials are highly volatile in nature and can impact the profitability of the company.

Working capital intensive operations

Company'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 improved from 128 days in FY21 to 66 days in FY22. However, the Operating cycle is elongated at 87 days in FY22.



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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, the promoters' established experience & relations partially mitigates the risk. Also, these tender based orders provide revenue visibility for the medium term.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Company](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

Liquidity – Adequate

The company has adequate Liquidity as it expects sufficient cushion in cash accruals vis-à-vis debt repayments. GCA in the next 3 years is estimated to be in the range of Rs. 6.87 Crore - Rs. 9.06 Crore against debt repayments of Rs.2.50 crore to Rs.4.60 crore. The average working capital utilization is ~93% during last 12 months ended July 2022. The unencumbered cash & bank balance stood at Rs. 0.10 Crore as on March 31, 2022. However, the current ratio of the company is below unity at 0.95x as on March 31, 2022.

About the Company

Incorporated in February 1974, G. G. Automotive Gears Limited (GGAG) acts a leading manufacturer of manufacturing of traction gears and pinions, based out of Dewas, Madhya Pradesh.



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Financials (Standalone):

(Rs. Crore)

For the year ended*/ As on	2021	2022
	Audited	Audited
Total Operating Income	30.06	47.51
EBITDA	1.93	5.79
PAT	(2.46)	0.42
Total Debt	26.73	32.03
Tangible Net Worth	19.87	20.25
EBITDA Margin (%)	6.41	12.18
PAT Margin (%)	(8.09)	0.87
Overall Gearing Ratio (x)	1.35	1.58

* Classification as per Infomerics` standards

Status of non-cooperation with previous CRA:

Brickworks Ratings vide its Press Release dated March 10th, 2022 classified the case under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (July 20, 2021)	Date(s) & Rating(s) assigned in 2020-21 (April 21, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	3.95	IVR BB+/ Stable	IVR BB+/ Stable	IVR BBB-/ Stable	--
2.	Cash Credit	Long Term	17.00	IVR BB+/ Stable	IVR BB+/ Stable	IVR BBB-/ Stable	--
3.	Bank Guarantee	Long/ Short	3.50	IVR BB+/ Stable; IVR A4+	IVR BB+/ Stable; IVR A4+	IVR BBB-/ Stable; IVR A3	--

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

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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
Term Loan	-	-	Upto March 2026	3.95	IVR BB+/ Stable
Cash Credit	-	-	-	17.00	IVR BB+/ Stable
Bank Guarantee	-	-	-	3.50	IVR BB+/ Stable; IVR A4+



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Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-GG-Automotive-sep22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.

