Press Release

GSA Industries

October 10, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	85.56	IVR BBB-/ Stable (IVR Triple B Minus; with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	73.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	**158.56**	**Rupees One Hundred Fifty Eight Crore and Fifty Six Lakhs Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has assigned long term rating of IVR BBB- with a Stable outlook and short-term rating of A3 for the bank loan facilities of GSA Industries (GSAI).

The rating draws comfort from the established track record of operations and experienced management, diversified operations, satisfactory order book position and comfortable debt protection metrics and financial risk profile. However, these strengths are partially offset by susceptibility to inherent cyclicality of automotive industry with intense global competition, risk associated with partnership constitution and susceptibility of profitability to raw material price volatility.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes GSAI's business risk profile will be maintained over the medium term. The firm performance has improved in FY2023 as compared to FY2022. The industry outlook is also improving due to robust demand from original equipment manufacturers (OEMs) on the back of a high base of past fiscals, focus on localisation and improved export and regulatory norms.

IVR has principally relied on the standalone audited financial results of GSAI upto 31 March 2022, FY2023 certified provisional results and projected financials for FY2024-FY2026, and publicly available information/ clarifications provided by the firm's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 720 crore and profitability margins
- Improvement in debt protection metrics
- Sustenance of the gearing below 1.90x

Downward Factors

- Significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing
- Any further major capex done through debt or internal accruals

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**
  The firm was incorporated in 2005 and has a successful track record of more than 18 years in the manufacturing auto components and non-auto components. Overall activities of GSAI are managed by two partners with Mr. Jatinder Pal Singh being the Managing Partner. He has experience of more than 2 decades in the existing line of business. He is ably supported by qualified and well experienced management team.

- **Diversified operations:**
  GSAI is involved in manufacturing of auto components namely RCP Rings, Piston Pins, Steel Forgings for Pistons and non-auto components namely agricultural implements like rotavator, super-seeder, laser land levellers etc. Revenues from auto components have grown considerably over past few years and contributed close to ~84.24% of revenues in FY2023 and non-auto components contributed close to 15.76%. Hence, GSAI's varied range of products allows it to cater to both automotive and non-automotive segments. Additionally, its automotive segment caters to tier-I component manufacturers, who further cater to passenger vehicles and two-wheeler OEMs. A healthy diversification, thus, aids in mitigating the impact of any slowdown in the auto industry to an extent.

- **Satisfactory order book position:**
  The firm has a satisfactory unexecuted order book position to the tune of about Rs. 595.70 crore which is to be executed within 1-2 years, thereby providing a moderate revenue visibility. Further, the order book of the firm is diversified across reputed clientele with orders from different players.

- **Comfortable debt protection metrics and financial risk profile:**
  In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and the debt service coverage ratio (DSCR) stood comfortable at 3.25x and 1.34x respectively in FY2023 (Provisional). The tangible networth has improved to Rs. 48.47 crore in FY2023 (Provisional) from Rs. 32.55 crore in FY2022. The total operating income (TOI) has improved to Rs. 458.86 crore in FY2023 (Provisional) from Rs. 250.07 crore in FY2022. In 5MFY24 the total operating income stood at Rs. 164.30 crore.

Key Rating Weaknesses

- **Susceptibility to inherent cyclicality of automotive industry with intense global competition:**
  As GSAI derives most of its revenues from the domestic automotive market, its earnings remain susceptible to the inherent cyclicality of the market. Amid the multiple headwinds seen in the automotive industry over the past few years, GI's performance also mirrored the underlying industry trends during this period; however, aided by its continuous business development initiatives, GI was able to largely outperform the industry growth. The auto component manufacturing industry has many players because of low entry barriers, driven by easy access to raw material. The intense global competition in this industry will continue to exert pricing pressure and create a major impact on profitability.

- **Risk associated with partnership constitution:**
  GSAI being a partnership firm is exposed to adverse capital structure risk, wherein any substantial capital withdrawal by partner/partners could negatively impact its net worth and the capital structure.

- **Susceptibility of profitability to raw material price volatility:**
  The firm is exposed to volatility in raw material prices. The prices of these raw materials are highly volatile and can lead to volatility in the profitability margins. However, this risk of volatility in prices is partially mitigated by the firm's longstanding relations and understanding with clients on the price front and price escalation clauses; the firm gets compensated for the same. The industry is fragmented and there is significant competition among the players in the industry due to which their bargaining power is limited. As a result, the profitability margins of the firm are susceptible to the volatility in raw material prices. However, to certain extent the firm is able to pass on the increase input cost to customer which safeguards its margins.

Analytical Approach: For arriving at the ratings, IVR has analysed GSAI's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for Assigning Rating Outlook

Liquidity – Adequate

The firm has an adequate liquidity position. There are long-term secured borrowings from banks/NBFC, amounting to Rs. 45.44 crore, as on 31st March 2023. Against a current portion of long-term debt (CPLTD) of Rs 12.53 crore in FY2023 (Provisional), the company had a cash accrual of Rs. 19.54 crore in FY2023 (Provisional). The company projected to generate cash accruals of Rs. 38.52 crore in FY2024 against a CPLTD of Rs. 12.46 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Entity

GSA Industries (GSAI) is a partnership firm incorporated in 2005 under the leadership of Mr. Jatinder Pal Singh. Currently it is managed by two partners, Mr. Jatinder Pal Singh and his son Mr. Gurpreet Singh. It is engaged in manufacturing auto components namely RCP Rings, Piston Pins, Steel Forgings for Pistons and non- auto components namely agricultural implements like rotavator, super-seeder, laser land levellers etc. The manufacturing plant is located at Patiala (Punjab).

Financials (Standalone):

(Rs. crore)

For the year ended as on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	250.07	458.86
EBITDA	19.36	29.06
PAT	3.80	9.39
Total Debt	98.76	136.54
Tangible Networth	32.55	48.57
EBITDA Margin (%)	7.74	6.33
PAT Margin (%)	1.51	2.03
Overall Gearing Ratio (x)	3.03	2.82

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Instrument/Facility	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	85.56	IVR BBB-/Stable (Assigned)	-	-	-
2.	Fund Based	Short Term	50.00	IVR BBB -/Stable (Assigned)			
3.	Non-Fund Based	Short Term	23.00	IVR A3 (Assigned)			

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

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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
Cash Credit	-	-	-	61.00	IVR BBB-/Stable
Term Loan	-	-	Oct 2024	0.63	IVR BBB-/Stable
Term Loan	-	-	Nov 2024	1.49	IVR BBB-/Stable
Term Loan	-	-	Aug 2026	10.50	IVR BBB-/Stable
Term Loan	-	-	Apr 2027	5.70	IVR BBB-/Stable
Term Loan	-	-	Jun 2028	6.24	IVR BBB-/Stable
EPC	-	-	-	15.00	IVR A3
BD/FBD/ID	-	-	-	35.00	IVR A3
Letter of Credit	-	-	-	19.00	IVR A3
LER	-	-	-	4.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable
Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-GSA-oct23.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 [Complexity Level of Rated Instruments/Facilities].