

Rating Rationale

August 23, 2023 | Mumbai

Gala Precision Engineering Private Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.62 Crore
Long Term Rating	CRISIL BBB/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A3+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Gala Precision Engineering Private Limited (GPEPL) to '**Positive**' from 'Stable' while reaffirming the rating at '**CRISIL BBB**', the short term rating is reaffirmed at '**CRISIL A3+**'.

The revision in the outlook reflects expected improvement in the business risk profile of the company. Business profile has been gradually improving for the past few fiscals marked by increase in revenues as well as operating margins to Rs. 165.9 crore and 17.6% in fiscal 2023 from Rs. 105.9 crore and 13.1% in fiscal 2021. The growth is driven by healthy demand from customers, continuous addition of new products as well as customers to its portfolio, favourable product mix and high bargaining power with customers. Further the improved scale of operations is expected to sustain backed by increase in manufacturing capacity and ramp up of operations along with continuous improvement in the operating efficiency. Financial profile continues to remain comfortable with adequate liquidity.

The ratings continue to reflect the extensive experience of the promoter in the engineering and automotive industry, the diverse product line and moderate financial risk profile of GPEPL. These strengths are partially offset by large working capital requirement and exposure to cyclicality in end-user industries.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of GPEPL and its China-based wholly owned subsidiary, Gala Precision Component Shanghai Ltd, which is strategically important to and has significant operational integration with GPEPL.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of the promoter: The promoter's experience of over two decades in the engineering and automotive industry has helped establish strong relationships with customers leading to repeat orders. The company has an established customer base and has added clients across various industries in both domestic and overseas markets. This has led to revenue growth to Rs 165.9 crore in Fiscal 2023 from Rs. 105.9 crore in fiscal 2021. Revenue is further expected to increase over the medium term driven by healthy demand and continuous increase in manufacturing capacity

Diversified product profile and end-user industry: GPEPL has a diversified portfolio comprising disc spring systems, special fastening solutions and coil spring systems. Disc spring systems products contribute 67% to revenue. It caters to various industries such as automotive, power, renewable energy, industrial and railways. This protects from slowdown in demand in a single industry.

Comfortable financial risk profile: Networth was Rs 58.5 crore, gearing 0.9 times and total outside liabilities to adjusted network (TOLTNW) ratio 1.4 times as on March 31, 2023. Capital structure is further expected to remain comfortable despite debt funded capex over the medium term driven by steady accretion to reserves. Debt protection metrics were comfortable, as reflected in interest coverage and net cash accrual to total debt ratios of 5.4 times and 0.38 time, respectively, in fiscal 2023. Debt protection metrics would continue to remain healthy driven by moderate leverage and healthy profitability.

Improvement in operating margin: Operating margin rose to 17.6% in fiscal 2023 from 13.1% in fiscal 2021 driven by new products and new customers in the overseas markets and high sale of DSS products which carry higher margins. Further

the company has the ability to pass fluctuation in raw material prices to customers. The operating margin is expected to remain healthy over the medium term.

Weaknesses:

Large working capital requirement: Operations are working capital intensive, as reflected in gross current assets (GCAs) of 202 days as on March 31, 2023, driven by receivables and inventory of 69 and 149 days, respectively. Large inventory is due to lead time in raw material procurement and long manufacturing cycle, while the company provides a moderate credit period to its customers. Working capital cycle is at a similar range over the medium term

Exposure to cyclicity in end-user industries: The demand for GPEPL's products is correlated with the industrial development activity in the world. The performance of automobiles and engineering sectors are driven by factors such as economic policies, demand and supply situation, prices of raw materials. Any reduction in the growth prospects of these sectors will impact the company's topline and its profitability

Liquidity: Adequate

Cash accrual is expected at Rs 22-28 crore against debt obligation of Rs. 3-7 crore each in fiscals 2024 and 2025. Bank lines were utilized 81% on average in the 12 months through March 2023. Cash and bank balance stood at Rs 12 crore and current ratio was 1.52 times as on March 31, 2022. Unsecured loan of Rs 10 crore further support liquidity.

Outlook: Positive

CRISIL Ratings believes business risk profile of GPEPL is expected to improve driven by healthy demand from customers and would continue to benefit from its established market position and the extensive experience of the promoter

Rating Sensitivity factors

Upward factors

- Improvement in scale of operations by 15% while maintaining operating profitability, leading to higher net cash accrual
- Sustenance of financial risk profile

Downward factors

- Decline in revenue or profitability, leading to net cash accrual of less than Rs 15 crore
- Stretched working capital cycle or debt-funded capital expenditure, leading to TOLANW ratio of above 2 times

About the Group

Incorporated in 2009 by Mr Kirit Gala, GPEPL manufactures disc and strip springs as well as coil and spiral springs. The company also provides special fastening solutions. Its manufacturing facilities are in Wada, Maharashtra.

Gala Precision Component Shanghai Ltd market the products of GPEPL in China

Key Financial Indicators - Consolidated

As on / for the period ended March 31		2023*	2022
Operating income	Rs crore	165.86	145.74
Reported profit after tax	Rs crore	15.9	7.79
PAT margins	%	9.59	5.34
Adjusted Debt/Adjusted Net worth	Times	0.94	1.39
Interest coverage	Times	5.42	4.7

*Provisional

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	5	NA	CRISIL A3+
NA	Export Packing Credit	NA	NA	NA	11	NA	CRISIL A3+
NA	Letter of Credit	NA	NA	NA	5	NA	CRISIL A3+
NA	Post Shipment Credit	NA	NA	NA	7.5	NA	CRISIL A3+
NA	Pre Shipment Facility	NA	NA	NA	10	NA	CRISIL A3+
NA	Term Loan	NA	NA	Mar-26	4.1	NA	CRISIL BBB/Positive
NA	Term Loan	NA	NA	Mar-26	7.9	NA	CRISIL BBB/Positive

NA	Working Capital Term Loan	NA	NA	Mar-27	11.5	NA	CRISIL BBB/Positive
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Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Gala Precision Components Shanghai Limited	Full	Same business and under the same management
Gala Precision Engineering Private Limited	Full	Same business and under the same management

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	52.0	CRISIL A3+ / CRISIL BBB/Positive		--	27-12-22	CRISIL A3+ / CRISIL BBB/Stable	29-09-21	CRISIL BBB/Stable	24-06-20	CRISIL BBB-/Stable / CRISIL A3	CRISIL BBB-/Stable / CRISIL A3
			--		--		--		--	18-06-20	CRISIL BBB-/Stable / CRISIL A3	--
			--		--		--		--	09-04-20	CRISIL BBB-/Stable / CRISIL A3	--
			--		--		--		--	17-03-20	CRISIL A3/Watch Developing / CRISIL BBB-/Watch Developing	--
Non-Fund Based Facilities	ST	10.0	CRISIL A3+		--	27-12-22	CRISIL A3+	29-09-21	CRISIL A3+	24-06-20	CRISIL A3	CRISIL A3
			--		--		--		--	18-06-20	CRISIL A3	--
			--		--		--		--	09-04-20	CRISIL A3	--
			--		--		--		--	17-03-20	CRISIL A3/Watch Developing	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	5	HDFC Bank Limited	CRISIL A3+
Export Packing Credit	11	YES Bank Limited	CRISIL A3+
Letter of Credit	5	HDFC Bank Limited	CRISIL A3+
Post Shipment Credit	7.5	HDFC Bank Limited	CRISIL A3+
Pre Shipment Facility	10	HDFC Bank Limited	CRISIL A3+
Term Loan	4.1	YES Bank Limited	CRISIL BBB/Positive
Term Loan	7.9	HDFC Bank Limited	CRISIL BBB/Positive
Working Capital Term Loan	11.5	HDFC Bank Limited	CRISIL BBB/Positive

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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