

March 11, 2020

Giesecke & Devrient India Private Limited: Ratings reaffirmed at [ICRA]BBB+ (Stable)/[ICRA]A2

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|--|
| Long Term – Fund-based | 49.10 | 49.10 | [ICRA]BBB+ (Stable); reaffirmed |
| Long Term and Short Term – Non-Fund Based | 115.00 | 115.00 | [ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed |
| Total | 164.10 | 164.10 | |

*Instrument details are provided in Annexure-1

Rationale

The rating action favourably factors in the support extended by Giesecke & Devrient India Private Limited's (G&D India) parent, Giesecke & Devrient GmbH (G&D), which is also its primary vendor, supplying banknote processing systems (BPS) and other related products. The support from G&D is reflected in the form of an extended credit period offered to G&D India, as well as corporate guarantees for bulk of the bank lines of G&D India. The ratings also derive comfort from G&D India's established track record in supplying, installing BPS and providing maintenance services. ICRA also takes into account the reputed client base of the company comprising the Reserve Bank of India (RBI), and various private and public-sector banks which have a strong credit profile. ICRA also takes note of the company's comfortable capital structure and strong coverage indicators. The ratings further factor in the adequate demand potential for BPS in the domestic banking sector driven by increase in currency in circulation, RBI's emphasis on clean notes and the government's increasing focus on detecting and curtailing the circulation of counterfeit currency.

The ratings, however, are constrained by the vulnerability of the company's operations to the capital expenditure plans of banks. Moreover, the company generally receives payments with some delay from public sector banks which may lead to receivables build up thereby impacting its working capital position. The ratings are further constrained by the high competitive intensity in the small-medium range BPS segment. ICRA also takes note of the high dividend payout by the company in the recent past. Any significant dividend payout in the future, which adversely impacts the company's liquidity position will be a key rating sensitivity.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that G&D India will continue to benefit from its established industry position and its access to technology due to its association with G&D.

Key rating drivers and their description

Credit strengths

Strong support from Germany-based parent: G&D India is a subsidiary of Giesecke & Devrient Currency Technology GmbH, which is among the global leaders in BPS. G&D India derives benefits from its parent's strong brand name, product quality, and technological and financial support. The financial support from G&D is in the form of extended credit days provided by G&D, in its capacity as a supplier of BPS machines to G&D India. Moreover, G&D has extended corporate guarantees for bulk of the bank lines of G&D India.

Established track record in supply and maintenance of bank note processing systems: G&D India has an established track record of operations in the domestic BPS segment. The company has been supplying and installing BPSs at various branches of banks and RBI. since 2001. The company's established operational track record, technological competitiveness and strong brand name have helped it in establishing healthy relationships with its customers, as reflected in repeat orders received from the clients.

Reputed client base comprising RBI and various banks: The primary customers of BPS are RBI and various public and private sector banks, that deploy these machines into their currency chests and various branches. Some of the company's major customers include RBI, State Bank of India (SBI), ICICI Bank, HDFC Bank, Axis Bank etc. The company's rentals business from these clients provides good medium term revenue visibility.

Comfortable leverage and coverage indicators: G&D India had a tangible net worth of Rs. 104.70 crore and zero debt as on March 31, 2019. The company benefits from the extended credit period offered by its parent and hence had an unleveraged capital structure. Owing to its zero-debt position, the coverage indicators of the company remained satisfactory with an interest coverage ratio of 23.55 times (previous year: 20.86 times) for FY2019.

Adequate demand potential for BPS segment: The demand for BPS in domestic banking sector is adequate and is supported by an increase in new currency circulation in the country, RBI's emphasis on clean note policy and growing emphasis on prevention of counterfeit currency.

Credit challenges

Operations remain vulnerable to the capital expenditure plans of banks: The demand for BPS is dependent on the capital expenditure plans of banks, which in turn is reliant on their business expansion plans, stressed assets position etc. Consolidation of banks may also impact the demand for BPS. This is partly mitigated by the fact that the company derives a sizeable part of the overall revenue from the annual maintenance charges (AMC) segment and, from providing IT software and technical support to other Group entities globally.

Vulnerability of working capital position to delayed payments from banks: The company generally receives payments with some delay from banks, this may lead to build up of receivables and may impact its working capital position. However, support from the parent in the form of an extended credit period, helps partly offset this impact.

High competitive intensity in BPS market: The domestic BPS market is marked by high competitive intensity with the presence of various global players such as Glory, De La Rue, Laurel, Toshiba, Xinda etc., however G&D India's established operational track record, technological competitiveness, long standing relationship with its customers and strong support from G&D, help give the company a competitive edge.

High dividend payout may impact the liquidity position: ICRA also takes note of the high dividend payout by the company in the recent past. Any significant dividend payout in the future could adversely impact its liquidity position. The same, thus, is a rating sensitivity. However, the company's largely unutilized bank lines provide some liquidity support.

Liquidity position: Adequate

The company's liquidity position is **adequate**. The company's stable operations and zero term debt repayment burden led to satisfactory cash flow generation in FY2019. With its business expected to chart a fair growth trajectory in the medium term, its Fund Flow from Operations (FFO) is expected to remain adequate; the company reported FFO of Rs. 22.85 crore for FY2019. Further, G&D India has cushion available in the form of undrawn working capital limits and has sufficient financial flexibility, given its zero debt status as on March 31, 2019. However, significant stretch in the working capital cycle and high dividend payout may exert pressure on the liquidity position, and will be key monitorables.

Rating sensitivities

Positive triggers: ICRA could upgrade the ratings on the bank lines of the company, if it demonstrates a sustained and healthy improvement in its scale and profitability.

Negative triggers: Decline in operating profit margins below 10% on a sustained basis could exert negative pressure on the ratings. Further stretch in the working capital cycle and significant buildup of debt or a significant dividend payout impacting the liquidity position could also result in a rating downgrade.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | The rating is based on standalone financial statements of the issuer |

About the company

G&D India established in 2001, offers Banknote Processing Systems (BPS) and other related services including annual maintenance contracts, overhaul services and offering BPS on rental. The company is a subsidiary of Giesecke & Devrient Currency Technology GmbH, which is involved in similar business segments in Germany. The other key business segment of G&D India is Information Technology (IT), wherein it primarily provides IT software and technical support to other G&D subsidiaries located in various parts of the globe.

Key financial indicators

| | FY2018 | FY2019 |
|--|----------------|----------------|
| | Audited | Audited |
| Operating Income (Rs. crore) | 224.26 | 203.27 |
| PAT (Rs. crore) | 29.33 | 7.52 |
| OPBDIT/OI (%) | 18.26% | 15.90% |
| RoCE (%) | 27.44% | 16.50% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.66 | 1.63 |
| Total Debt/OPBDIT (times) | 0.00 | 0.00 |
| Interest Coverage (times) | 20.86 | 23.55 |
| DSCR | 6.35 | 15.91 |

Source: Company's audited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2020) | | | | Rating History for the Past 3 Years | | | |
|---|--------------------------------|-------------------------|--------------|--------------------|--------------------------------|-------------------------------------|--------------------------------|--------------------------------|--|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2019 | FY2018 | FY2017 | |
| | | | | | 11-March-2020 | 31-December-2018 | 13-November-2017 | 09-August-2016 | 04-July-2016 |
| 1 | Fund Based-Cash Credit | Long Term | 49.10 | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | - |
| 2 | Non Fund Based-Bank Guarantees | Long Term/ Short Term | 115.00 | - | [ICRA]BBB+ (Stable) / [ICRA]A2 | [ICRA]BBB+ (Stable) / [ICRA]A2 | [ICRA]BBB+ (Stable) / [ICRA]A2 | [ICRA]BBB+ (Stable) / [ICRA]A2 | [ICRA]A- (Stable) / [ICRA]A2+; Suspended |

Amount in Rs. Crore

* As on March 31, 2019 (based of audited financials for FY2019)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](http://www.icra.in)

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|------------------------|-----------------------------|-------------|---------------|--------------------------|--------------------------------|
| NA | Working Capital Limits | NA | NA | NA | 49.10 | [ICRA]BBB+ (Stable) |
| NA | Non-Fund Based Limits | NA | NA | NA | 115.00 | [ICRA]BBB+ (Stable) / [ICRA]A2 |

Source: G&D India

Analyst Contacts

K Ravichandran

+91 44 45964301

ravichandran@icraindia.com

Manish Ballabh

+91 124 4545 812

manish.ballabh@icraindia.com

Vipin Jindal

+91 124 4545 355

vipin.jindal@icraindia.com

Hemant Dahiya

+91 124 4545 365

hemant.dahiya@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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