August 24, 2021

GERB Vibration Control Systems Pvt Ltd: Long-term rating assigned as [ICRA]BB+(Stable); short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based: Working capital facilities	0.00	2.10	[ICRA]BB+(Stable); assigned
Non-fund based facilities	14.00	14.00	[ICRA]A4+; reaffirmed
Total	**14.00**	**16.10**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in GERB Vibration Control Systems Pvt Ltd's (GVCSPL) proven track record in executing various projects, along with the operational support from its parent company, GERB Holding Gmbh. The ratings draw comfort from the company's reputed clientele and comfortable order book position. The ratings consider GVCSPL's debt-free capital structure and its adequate liquidity position, with cash and liquid investments of Rs. 17.9 crore as on March 31, 2021.

The ratings, however, remain constrained by GVCSPL's small scale of operations, and intense competition from well-established multinational players. The ratings are also constrained by the high working capital-intensive nature of operations with Net Working Capital/Operating Income ratio of ~49%, as reflected by high receivables and inventory holdings. The profits are susceptible to volatility in raw material prices, although immediate procurement of raw materials on receipt of order protects its profitability to a large extent.

The Stable outlook assigned to the company reflects ICRA's expectation that GVCSPL would continue to maintain its credit profile with a comfortable order book position and expected order inflows.

Key rating drivers and their description

Credit strengths

Extensive experience in manufacturing vibration control systems – Established in 1992 in Bangalore, GVCSPL is involved in manufacturing vibration isolation, vibration control and seismic protection systems to cater to the domestic market. The company receives technical support from its parent GERB Holding Gmbh, Germany, which was established in 1908 by Mr. William Gerb. Mr. Ragothaman Gopinath is presently the Managing Director of GERB India and has work experience in public sector and multinational companies.

Established relationship with customers – The company has an established relationship with its customers and has a favourable track record of delivering quality products in a timely manner. It has received repeat orders from Larsen & Toubro Ltd and Bharat Heavy Electricals Limited over the last few years.

Comfortable capital structure and debt protection metrics – The company's capital structure and coverage indicators remained comfortable with nil debt in the past and free cash and cash equivalent of Rs. 17.9 crore as on March 31, 2021. The debt protection metrics remained strong marked by TOL/TNW of 0.1 times and interest coverage of 45.3 times in FY2021 (provisional financials). Going forward, GVCSPL is expected to have strong debt protection metrics, with minimal dependence on debt over the medium term.

Credit challenges

Small scale of operations – GVCSPL's overall scale of operations remained small, with revenue of Rs. 35.7 crore (provisional) in FY2021, though improved from Rs. 28.3 crore in FY2020. Further, its small scale exposes the company to the risk of business downturn and its ability to absorb a temporary disruption and leverage fixed costs. The order book stood moderate at Rs. 22.3 crore as on June 23, 2021 owing to slow order inflow amid the pandemic. However, the new order inflow is expected to improve with the opening of economies.

High working capital intensity of operations – The company operates in a high working capital-intensive business with a manufacturing cycle of 8-12 weeks and has to keep an inventory for the same, considering the delivery lead time for raw materials. The receivables also remain high as the retention money kept by the client spans up to three to five years for some projects. The working capital intensity improved in FY2021 with NWC/OI of ~49% against ~100% in FY2020 owing to reduction in inventory levels, though it continues to remain at relatively higher levels. The high working capital-intensive nature of operations and moderate profit margins resulted in modest return on capital employed in the past.

Volatility in profitability margins – GVCSPL profit margins remained volatile in the past and the same depend on the order book composition, as some products have better margins over others. The operating profitability improved to 8.6% (provisional) in FY2021 against 5.6% in FY2020, on the back of increase in scale as well as reduction in operating expenses. Going forward, the profit margins will continue to remain moderate owing to limited value addition and stiff competition.

High customer concentration risk – GVCSPL's performance is dependent on the growth of its end-user industries. Any shifts in economic cycles, increasing their susceptibility to cyclicality in demand growth, significantly impacts the company's revenues and cash flows. A predominant portion of its revenues are derived from the power and construction sector clients and these orders are generally secured through the tender process, which exposes GVCSPL to client/sectoral concentration risk.

Liquidity position: Adequate

The company's liquidity position is **adequate** with free cash and cash equivalents of Rs. 17.91 crore as on March 31, 2021. It has unutilised cash credit limits of Rs. 2.10 crore giving supporting its liquidity position. GVCSPL does not have major capex plans nor any repayments in near term, however, dividend of ~Rs. 2 crore is to be paid to the holding company.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to demonstrate significant improvement in its scale of operations and profitability while improving its working capital intensity.

Negative factors – Pressure on the ratings could arise if there is a substantial decline in sales or profitability, along with stretch in working capital cycle leading to a stretched liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Established in 1992 in Bangalore, GERB Vibration Control System Pvt Ltd (GVCSPL) is involved in manufacturing vibration isolation, vibration control and seismic protection systems catering to the domestic market. It provides services to thermal power plants, metal forming, steel, cement, chemical, pharmaceutical and textile industries. GVCSPL was initially incorporated as a joint venture company between GERB Holding (Germany) and an Indian company (Francis Klein & Co Pvt Ltd) in 1992. Later, the company became a subsidiary of GERB Holding Germany in 2013. Its manufacturing-cum-sales office is in Peenya, Bangalore with all the equipment required for the manufacturing of vibration isolation systems.

Key financial indicators (audited)

	FY2019	FY2020	FY2021 (provisional)
Operating Income (Rs. crore)	29.6	28.3	35.8
PAT (Rs. crore)	3.6	0.9	2.0
OPBDIT/OI (%)	3.4%	5.6%	8.6%
PAT/OI (%)	12.0%	3.0%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	0.1
Total Debt/OPBDIT (times)	-	-	-
Interest Coverage (times)	6.3	19.1	45.3

OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					August 24, 2021	July 14, 2020	July 11, 2019	October 31, 2018
1	Cash Credit	Long Term	2.10	-	**[ICRA]BB+ (Stable)**	**-**	**-**	**-**
2	Non-Fund based	Short Term	14.00	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits- Cash Credit	Simple
Non-fund based facilities – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Bank Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Deutsche Bank	Cash Credit	NA	NA	NA	2.10	[ICRA]BB+(Stable)
Deutsche Bank	Bank Guarantee	NA	NA	NA	14.00	[ICRA]A4+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124-4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 079 40271528
sanket.thakkar@icraindia.com

Harshit Surana
harshit.surana@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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches