

July 04, 2022

Giesecke & Devrient India Private Limited: Ratings reaffirmed; rated amount enhanced

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]A-(Stable); reaffirmed
Long term and Short term – Non-fund based	157.00	182.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed and assigned for amount enhancement
Total	206.10	231.10	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings takes into account the steady demand for currency management systems which has resulted in stable income streams for Giesecke & Devrient India Private Limited (G&D India). The company is involved in the supply and lease of bank note processing systems (BPS), and associated maintenance and repair services. G&D India is expected to report robust revenues in FY2022 and FY2023, aided by the execution of a Rs. 300-crore order secured from Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL) which involves the supply and installation of a fully automated single note inspection, cutting and shredding system with robotic solutions at two of its press sites. G&D India also benefits from healthy revenues from annual maintenance contract (AMC) charges, overhaul/maintenance charges and technical support services (provided to group companies), which have a higher degree of customer stickiness and are more margin accretive. Higher rental income from machines supplied on lease provides greater revenue visibility for the company in the medium term.

The ratings factor in the technical and managerial support extended by G&D India's parent, Giesecke & Devrient GmbH Germany (G&D Germany through its wholly owned subsidiary Giesecke & Devrient Currency Technology GmbH), which is also its primary vendor, supplying BPS and other related products. The support from G&D Germany is evident from the extended credit period offered to G&D India as well as the corporate guarantees for the bulk of its bank lines. The ratings also derive comfort from G&D India's established track record in catering to reputed customers, comprising the Reserve Bank of India (RBI), the State Bank of India as well as various other private and public- sector banks that have strong credit profiles. ICRA also takes into consideration the company's comfortable capital structure and zero-debt position. The ratings further factor in the adequate demand potential for BPS in the domestic banking sector, driven by the increase in currency in circulation, the RBI's emphasis on clean notes and the Government's focus on detecting and curtailing 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 faces price competition from its peers in the small-to-medium range BPS segment which can result in a moderation of its operating margins. ICRA also notes that any potential adverse impact related to the company's contingent liabilities, may affect its liquidity position.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that G&D India will continue to benefit from the strong demand for currency management systems and steady income from the rental/ AMC business as well as its access to technology and managerial support from its parent, Giesecke + Devrient GmbH.

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 in turn is a wholly owned subsidiary of Giesecke + Devrient GmbH, which is among the global leaders in supplying of BPS. G&D India benefits from its parent's strong brand name, product quality, and technological and financial support. Giesecke + Devrient Germany offers G&D India financial support in the form of extended credit and corporate guarantees for bulk of its bank lines.

Reputed client base - G&D India has an adequate customer base comprising the RBI and a mix of private and public-sector banks such as SBI, ICICI Bank, Axis Bank, HDFC Bank, Bank of India, etc that have a strong credit profile and deploy BPS machines in their currency chests and various branches. Access to such reputed clientele provides the company with significant revenue visibility over the medium to long-term.

Strong liquidity position - G&D India intends to remain debt-free and hence has not availed any long-term loan on its balance sheet in the last few years. The company also has sufficient cushion in the form of undrawn fund-based and non-fund based working capital limits, of which the former remains largely un-utilised due to satisfactory credit period extension from Group companies (90 days, can go beyond that post necessary internal approvals). The company has been able to utilise its internal funds to manage its working capital. Further, majority of these limits are guaranteed by the parent – Giesecke + Devrient GmbH - which provides additional comfort.

Adequate demand potential for BPS segment - This is driven by the RBI's direction to banks for installing counterfeit note checking machines. Further, the RBI is focusing on increasing security features in its currencies which will generate incremental as well as replacement demand for G&D's products.

Credit challenges

Operations vulnerable to capital expenditure plans of banks - The demand for BPS depends on the capital expenditure plans of banks, which in turn is reliant on their expansion plans, stressed assets position etc. The consolidation of banks may also impact the demand for BPS. Such risks are partly mitigated by the BPS machines supplied on lease to banks which are unable to incur the high associated capital expenditure. The company also generates stable revenues from annual maintenance charges (AMC) and from providing IT software and technical support to other Group entities globally.

Intense competition in BPS market - G&D India faces price competition in the BPS space from some of the Chinese players who offer the machines at lower prices. It, however, has a strong presence in bigger machines. It remains competitive in the market with its established operational track record, technological competitiveness, long standing relationship with customers and strong support from its parent company Giesecke + Devrient GmbH. The presence of numerous global players adds to the competitive intensity in the industry, which can exert pressure on the company's profitability.

Liquidity position: Adequate

G&D India's liquidity position is adequate. The growth in the company's scale and zero term debt repayment burden led to satisfactory cash flow generation in FY2022. It had unencumbered cash and bank balance of Rs. 27.5 crore (provisional) as on March 31, 2022, and unutilised working capital limit of Rs 49.1 crore. Further, the utilisation of fund-based working capital limits averaged 3% in FY2022. The liquidity is estimated to remain adequate as the business is expected to chart a fair growth trajectory with moderate operating profitability metrics, modest working capital requirements and zero annual term debt repayments in the medium term.

Rating sensitivities

Positive factors - ICRA could upgrade the ratings on the company's bank lines if it demonstrates a sustained and healthy improvement in its scale and profitability.

Negative factors - A TOL/TNW greater than 1.2 times on a sustained basis could exert negative pressure on the ratings. Further a stretch in the working capital cycle and a significant build-up 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 the company's standalone financial profile

About the company

G&D India, established in 2001, offers BPS and other related services including-annual maintenance contracts, overhaul services and lease of BPS. The company is a subsidiary of Giesecke + Devrient GmbH, which in turn is a subsidiary of Giesecke + Devrient GmbH and 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

	FY2020	FY2021	FY2022 (Provisionals)
Operating income (Rs. crore)	322.6	191.0	398.8
PAT (Rs. crore)	10.2	5.9	32.8
OPBDIT/OI (%)	12.1%	12.9%	14.7%
PAT/OI (%)	3.2%	3.1%	8.2%
Total outside liabilities/tangible net worth (times)	1.0	1.1	1.6
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	21.3	10.6	56.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not Available

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				04-Jul-2022	06-Apr-2021	11-Mar-2020		
1 Fund Based- Working Capital Loan/Overdraft	Long Term	49.10	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]BBB+(Stable)	
2 Non Fund Based- Bank Guarantees	Long Term/ Short Term	182.00	-	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	-	[ICRA]BBB+(Stable) / [ICRA]A2	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund Based Working Capital Loan/Overdraft	Simple
Long-term/ Short-term – Non Fund Based Bank Guarantees	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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based- Working Capital Loan/Overdraft	NA	NA	NA	49.10	[ICRA]A-(Stable)
NA	Non Fund Based-Bank Guarantees	NA	NA	NA	182.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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