

July 11, 2019

## Gerb Vibration Control Systems Pvt Ltd: Rating reaffirmed at [ICRA]A4+

### Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Guarantee	14.00	14.00	[ICRA]A4+; reaffirmed
<b>Total</b>	<b>14.00</b>	<b>14.00</b>	

\*- Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to factor in the extensive experience of Gerb Vibration Control Systems Pvt Ltd's (GVCSP) parent company, GERB Holding GmbH, in manufacturing vibration control systems and the technical support rendered to GERB on need basis. The parent company has extended financial support to GVCSP in form of corporate guarantee to its bank for the limits sanctioned. The rating continues to favourably factor in GVCSP's debt-free capital structure and its comfortable liquidity position with cash and liquid investments of Rs. 15.83 crore as on March 31, 2019. Further, it enjoys established relationship with customers with a favourable track record of delivering quality products in a timely manner.

The rating, however, is constrained by the company's small scale operations with revenues of Rs. 29.61 crore in FY2019, an order book of Rs. 33.51 crore as on May 9, 2019 offering limited revenue visibility. The rating is constrained by its thin margins due to limited pricing flexibility as a major portion of the orders are secured by participating in tenders floated by Government companies. These apart, GVCSP faces high customer concentration with ~53% of revenues derived from top five customers in FY2019. It reported a high working intensity of 65% in FY2019 due to stretched receivables and high inventory holding. Moreover, the company is exposed to stiff competition from imported products as well as other convention vibration control methods like rubber pads.

### Outlook: NA

### Key rating drivers

#### Credit strengths

**Vast experience of management in the manufacturing of vibration control systems:** Established in 1992 in Bangalore, GVCSP 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, Germany, which was established in 1908 by Mr. William Gerb. The parent company manufactures vibration isolation and noise control machinery. The Group operates 11 subsidiaries in Berlin, Essen, France, Italy, Spain, Czech Republic, China, Russia, India, Japan, South Korea, Brazil, Mexico and USA.

**Healthy capital structure:** The company has been maintaining a debt-free capital structure and comfortable debt coverage indicators over the years.

**Established relationship with customers:** The company shares established relationship with customers with a favourable track record of delivering quality products in a timely manner. It received repeat orders from L&T Ltd, Nima Engineering Ltd and BHEL in the last three years.

## Credit challenges

**Small scale of operations and limited revenue visibility:** GVCSP's operating income (OI) remained flat in FY2019 at Rs. 29.61 crore compared to Rs. 30.65 crore in FY2018. The orders from the power sector have reduced over the last three years, which resulted in muted revenue growth. The company reported an order book of Rs. 33.51 crore as on May 9, 2019 (1.13 times of OI in FY2019) resulting in limited revenue visibility.

**High working capital intensity:** The company's working capital intensity stood at 65% in FY2019 due to high inventory and debtor days. The inventory days are high as it holds the inventory requirement for all its large orders in hand. The debtor days remained high as it includes retention money.

**Thin operating margins due to limited pricing flexibility:** The operating margin stood at 4.97% in FY2018 and 4.62% in FY2019 due to limited pricing flexibility on account of stiff competition and tender-based orders. However, the PAT margins increased to 18.78% in FY2019 from 2.60% in FY2018 owing to profit realised on the sale of the freehold land located in Doddaballapura.

**High customer concentration risk:** The customer concentration remains high with top five customers accounting for 53% of total sales in FY2019. A predominant portion of the revenues are from power and construction sector clients and these orders are generally secured through the tender process.

## Liquidity position

The company's liquidity position remained comfortable with free cash and liquid investments of Rs. 15.83 crore outstanding as on March 31, 2019 compared to Rs. 9.48 crore as on March 31, 2018. It also reported Rs. 2.0-crore cash credit limits, which remains unutilised over the last five years.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the entity

## About the company

Established in 1992 in Bangalore, GVCSP is involved in manufacturing vibration isolation, vibration control and seismic protection systems to cater to the domestic market. The company caters to the orders from thermal power plants, metal forming, steel, cement, chemical, pharmaceutical and textile industries. It was initially incorporated as a joint venture company between GERB Holding (Germany) and an Indian company (Francis Klein & Co Pvt Ltd) in 1992. Later, it became a subsidiary of GERB Holding- Germany from 2013. GVCSP's manufacturing and sales office is in Peenya, Bangalore with all the equipment required for the manufacturing of vibration isolation systems.

In FY2019, on a provisional basis, the company reported a net profit of Rs. 5.56 crore on an OI of Rs. 29.61 crore, as compared to a net profit of Rs. 0.80 crore on an OI of Rs. 30.65 crore in the previous year.

## Key financial indicators

	FY2018	FY2019*
Operating Income (Rs. Crore)	30.65	29.61
PAT (Rs. Crore)	0.80	5.56
OPBDIT/ OI (%)	4.97%	4.62%
RoCE (%)	1.92%	10.16%
Total Debt/ TNW (times)	0.00	0.00
Total Debt/ OPBDIT (times)	0.00	0.00
Interest Coverage (times)	14.09	8.45

\*Provisional

## Status of non-cooperation with previous CRA:

The company is not cooperating with CRISIL and has rating of CRISIL B( Stable)/A4; Issuer not cooperating vide its press release dated September 6, 2018.

## Any other information: None

## Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jul 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Bank Guarantee	Short Term	14.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-

## 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 [www.icra.in](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	Bank Guarantee	-	-	-	14.00	[ICRA]A4+ <i>Source: GVCSP</i>

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