G.B. Springs Private Limited

January 02, 2023

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	19.57 (Enhanced from 13.03)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	**25.57 (₹ Twenty-Five Crore and Fifty-Seven Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of G.B. Springs Private Limited (GBSPL) continue to draw comfort from the experienced management coupled with long track record of operations and moderate profitability margins. The ratings, further, continue to derive strength from moderate capital structure and debt coverage indicators. The ratings, however, continue to remain constrained by its modest scale of operations, elongated operating cycle, project execution and stabilization risk, significant dependence on Indian Railways coupled with raw material price fluctuation risk and competitive nature of the industry with business risk associated with tender-based orders.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations as marked by total operating income of above Rs.100.00 crore on sustained basis.
- Improvement in the capital structure of the group as marked by overall gearing ratio of below 1.00x.
- Improvement in the operating cycle of the group below 60 days.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations by more than 20% from envisaged level and decline in profitability margins as marked by PBILDT and PAT margin below 9.00% and 2.00% respectively, on sustained basis.
- Deterioration in debt coverage indicators as marked by interest coverage ratio of below 2.50x and total debt to gross cash accruals of above 10.00x respectively.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management coupled with long track record of operations: Mr. Bipen Gupta and Mr. Vineet Kumar Gupta are the part of the management of the GB group, and they collectively look after the overall operations of the group. Both of them are graduates by qualification and holds experience of nearly three decades in manufacturing business through their association with this group and other associate concerns. Further, they are also assisted by a team of well-qualified and experienced project managers, project engineers and dedicated purchase planning and execution department having relevant experience in their respective fields. The group is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Moderate profitability margins: The profitability margins of the group stood moderate as marked by PBILDT and PAT margin which stood at 10.20% and 2.97% respectively, in FY22 wherein the group reaps benefits of its established image in the regional market. Further, it is expected to improve and remain range-bound between 11.00%-13.00% in the projected period with, the introduction of new product in product portfolio which will fetch better margin over the medium term.

Moderate capital structure and debt coverage indicators: As on March 31, 2022, the debt profile of the group comprises of term loan of Rs.8.42 crore, vehicle loan of Rs.1.58 crore, unsecured loan from promoters of Rs.1.47 crore and working capital bank borrowings of Rs.18.55 crore. The capital structure of the group stood moderate as marked by overall gearing ratio which stood at 1.41x as on March 31, 2022 on account of limited debt levels against the net worth base. However, the capital structure

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

is expected to deteriorate in the projected period as the group has undertaken debt funded capex plan in subsidiary GBES. Further, GBES has also proposed enhancement in its working capital limits to expand its business and support its growing scale of operations. However, despite increase in debt levels, and support of promoters through infusion of funds the overall gearing is expected to remain moderated between 1.50x-2.50x. in the near to medium term.

Further, on account of limited debt levels, the debt coverage indicators of the group stood moderate as marked by interest coverage ratio and total debt to GCA of 6.76x and 6.91x respectively, for FY22. However, the same is expected to get moderated in the projected period owing to the capex undertaken leading to increase in interest expenses.

Key Rating Weaknesses

Modest scale of operations: GB group's scale of operations stood modest as evident from total operating income (TOI) of Rs.72.69 crore and gross cash accruals of Rs.4.34 crore respectively, during FY22 (FY refers to the period April 1 to March 31). Nevertheless, the scale remains modest; it limits the group's financial flexibility in times of stress and deprives it of scale benefits. Further, the group has achieved total operating income of Rs.50.82 crore during 8MFY23 (refers to the period from April 1, 2022 to November 30, 2022; based on provisional results). The group is expected to clocked revenue of Rs.90.53 crore in FY23 owing to addition of new products in the product portfolio.

Elongated operating cycle: The operations of the group stood elongated marked by operating cycle of 81 days for FY22. The group is required to maintain adequate inventory in the form of raw material to ensure smooth production process as well as maintain stock of finished products in order to meet the immediate demand of the customers which resulted in an average inventory holding period of around 47 days for FY22. The group has to offer liberal credit period of around 2-3 months to its customers resulting in an average collection period of 77 days for FY22. The improvement in the collection period was on account of early realizations from the Indian Railways (IR). The group receives an average credit period of around 2 months from its suppliers resulting in an average creditor's period of 43 days for FY22. The average utilization of the working capital limits remained around 70% for the past 12 months period ending November, 2022.

Project execution and stabilization risk: GB group has undertaken capex plan in its subsidiary namely "G B Equipment Systems Private Limited" with total project cost of Rs.42.20 crore for setting up a manufacturing plant for disposable syringes and needles at its existing facility in Dehradun, Uttarakhand. The project is proposed to be funded through term loan of Rs.29.00 crore and balance through promoter's contribution of Rs.13.20 crore. The debt has been tied-up and it is expected to commence operations from April, 2023. As on November 30, 2022, the group has incurred ~Rs.13.00 crore which is 31% of the total project cost towards building construction and giving advances for the purchase of plant & machineries. The same have been funded through term loan of ~Rs.6.00 crore and rest through promoter's contribution. The execution of the project with the envisaged time and cost remains a crucial from analytical prospective. Furthermore, post project implementation risk in the form of stabilization and streamlining of operations to achieve the envisaged scale of business and risk associated with the products offered in the light of competitive nature of industry is yet to been seen. During the initial phases of operations, the capital structure of the group is expected to remain leveraged due to debt funded CAPEX undertaken coupled with dependence on bank borrowings to meet the working capital requirements.

Significant dependence on Indian Railways coupled with raw material price fluctuation risk: With majority of revenue contribution in FY22, Indian Railways (IR) is the major customer of the group indicating high customer concentration risk. In the past also, IR was the major contributor to the total operating income of the group. This exposes the group towards customer concentration risk. Any change in procurement policy of this customer may adversely impact the business of the group. Hence, any slowdown in the orders floated by IR will directly impact the group's revenue growth and profitability to its customer's future growth plans. However, considering the proposed investment by Government of India in the IR specifically for "Vande Bharat" trains the likelihood of slowdown in the orders is minimal. Moreover, IR being a part of Indian Government, the default risk is negligible providing comfort for the group.

The group is exposed to the raw material price volatility risk due to the volatility experienced in the prices of steel and allied products and their prices fluctuates rapidly due to demand-supply gap and depend on the fortunes of steel industry. The finished goods price moves in tandem with raw material prices, but with a time lag. Since, the raw material is the major cost driver, any decline in finished goods prices with no decline in raw material prices will result in adverse performance of the group. The risk is more evident now that the market has considerable volatility and could leave the group carrying costly inventory in case of sudden appreciation. Hence, it is always exposed to volatility in their prices and has a direct impact on the profitability margins of the group. Thus, the profitability of the group is based on the ability of the group to absorb the increase in raw material prices.

Competitive nature of the industry with business risk associated with tender-based orders: The company majorly manufactures railway components as per the directions and specification given by Research Design and Standards Organisation (RDSO). It is mandatory for the companies to get approval from RDSO to manufacture/supply any rail related products. Further, the work orders are awarded through tender and the lowest bidder gets the work. Hence, going forward, due to aggressive bidding, the profits margins are likely to be under pressure in the medium term.

Liquidity: Adequate
The liquidity position of the group remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company has reported gross cash accruals to the extent of Rs.4.34 crore during FY22 and is expected to generate envisage GCA of Rs.6.11 crore for FY23 against repayment obligations of Rs.3.41 crore in same year. Further, the average utilization of its working capital limits stood around 70% for the past 12 month's period ending December, 2022. Further, company's liquidity profile is also supported by unencumbered cash and bank balances which stood at Rs.6.29 crore as on March 31, 2022.

Analytical approach: Consolidated; CARE Ratings Limited has taken a consolidated approach for analysing G.B. Springs Private Limited which has one subsidiary named as G.B. Equipment Systems Limited, have financial linkages in the form of investments made by GBSPL and are under a common management. GBES has been converted into wholly owned subsidiary in September, 2021.

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Uttarakhand based, G.B. Springs Private Limited (GBSPL) was incorporated in March, 1985 as a private limited company. GB group is currently being managed by Mr. Bipen Gupta and Mr. Vineet Kumar Gupta. GBSPL is engaged in the manufacturing of springs i.e. coil springs and leaf springs for Indian Railways used in freight wagons, coaches, locomotives, construction equipment, elevators. The manufacturing facility of the GBSPL is located at Dehradun, Uttarakhand with an installed capacity of 5000 metric tons per annum as on March 20, 2022. The GBSPL is ISO 9001:2008 and ISO 14001:2004 certified for its quality management. The GBSPL procures the raw material i.e. stainless-steel black bars and rods domestically from the suppliers located across India. G B group is having one associate concern namely; "G B Petro Consultants Private Limited" (incorporated in 2009) engaged in providing consultancy services in the field of oil/gas production and Indian railways.

G.B. Equipment Systems Limited (GBES): It is a wholly owned subsidiary of G.B. Springs Private Limited (incorporated in 1992; converted into wholly owned subsidiary in September, 2021). It is engaged in the manufacturing and supply of friction snubber arrangements, hydraulic damper and fabricated parts for Indian Railways. GBES is also engaged in the supply of surgical gloves which contributes around 40% of its total operating income. GBES has also undertaken capex plan with an aim to set up a manufacturing plant for disposable syringes and needles. The same is expected to get commercialised from April, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)*	March 31, 2022 (A)**	8MFY23 (Prov.)***#
Total operating income	48.56	72.69	50.82
PBILDT	5.88	7.41	NA
PAT	2.61	2.16	2.08
Overall gearing (times)	1.19	1.41	NA
Interest coverage (times)	5.04	6.76	NA

A: Audited; Prov.: Provisional
**Standalone numbers of GBSPL.*
***Consolidated numbers; since, subsidiary (GBES) has been formed in September, 2021.*
[#]refers to the period from April 1, 2022 to November 30, 2022.

Status of non-cooperation with previous CRA: CRISIL Ratings has conducted the review and has maintained G.B. Springs Private Limited as "Not Cooperating" vide its press release dated February 25, 2022.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure- 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March, 2027	7.57	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	4.50	CARE A3
Non-fund-based - ST-ILC/FLC		-	-	-	1.50	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Mar-22)	1)CARE BBB-; Stable (26-Mar-21)	1)CARE BBB-; Stable (30-Dec-19)
2	Non-fund-based - ST-ILC/FLC	ST	1.50	CARE A3	-	1)CARE A3 (30-Mar-22)	1)CARE A3 (26-Mar-21)	1)CARE A3 (30-Dec-19)
3	Non-fund-based - ST-Bank Guarantee	ST	4.50	CARE A3	-	1)CARE A3 (30-Mar-22)	1)CARE A3 (26-Mar-21)	1)CARE A3 (30-Dec-19)
4	Fund-based - LT-Term Loan	LT	7.57	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Mar-22)	1)CARE BBB-; Stable (26-Mar-21)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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