

GEA BGR Energy System India Limited

February 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	18.09 (Reduced from 22.08)	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	56.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Short-term bank facilities	1.54 (Reduced from 1.56)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of GEA BGR Energy System India Ltd (GBGR) take into account the established track record of the company with established market position in online tube cleaning system (OLTCS) and debris filters used in power/desalination projects, in-house design, technology & engineering capabilities and reputed clientele with long-standing relationship.

Ratings take note of improving scale of operation in FY23 but with the fall in profitability due to the write off expenses in connection with disputed receivables of previous period.

Ratings also continue to be constrained by limited market size, dependence on thermal power sector for majority of the orders, elongated operating cycle and increasing client concentration risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations to above ₹150 crore, aided by a strong order book with lower client concentration.
- Significantly improving collection cycle with collection period of less than 120 days.

Negative factors

- Large-sized debt-funded capital expenditure (capex) or elongating operating cycle leading to deteriorating capital structure with an overall gearing exceeding 0.75x.
- Dropping profitability margins on account of increase in raw material prices or foreign exchange (forex) rates.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that GBGR will continue to benefit from the established market position in OLTCS and debris filters and long-standing relationship with reputed clientele.

Detailed description of the key rating drivers:

Key strengths

Long and established track record of the company with established market position

GBGR has long and established track record of three decades in the manufacture of tube cleaning system segment and debris filters. By virtue of long-standing presence, the company has developed a strong expertise over the years and the technology has gained good acceptance in the domestic as well as global market with installations of over 4,000 units in nearly 55 countries with proven operational performance in all conditions over the years. The company is among the few players globally in the manufacturing of tube cleaning system and debris filters. The company is a market leader in the domestic segment. The company deals with major domestic and global engineering, procurement & construction (EPC) players in the power sector and there are few players in this product segment.

In-house design, engineering capabilities and technology

GBGR had inherited the technology from GEA Energietechnik GmbH, Germany and had further patented and improvised on the technology to constantly innovate and meet customized requirements of clients. The same has helped the company to maintain better quality and consistency. The forte of the company lies in the strong design and engineering capabilities. The company's products are used in cleaning process of water-cooled condensers in power plants which directly improves the efficiency and output of the power plant. GBGR is also in the process of developing a miniature version of online tube cleaning system (OTCS) which can be used in large air conditioners/chiller plants that are used in commercial spaces such as malls and multiplexes.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Moderate capital structure with comfortable debt protection metrics

Total debt including mobilization advances stood at ₹32.87 crore as against total net worth (TNW) of ₹64.03 crore as on March 31, 2023, and the overall gearing of GBGR remained stable at 0.51x. Interest coverage ratio (ICR) and total debt to gross cash accrual (TDGCA) stood comfortable at 5.22x (PY: 3.37x) and 1.46x (PY: 2.71x) respectively in FY23. The debt service coverage ratio (DSCR) for FY24 stands comfortable at 3.57x. Total debt includes unsecured loan of ₹6.50 crore from associate company infused to pay off the bank guarantee (BG) in connection with the disputed contract. Though the entire contract along with receivables have written off, the unsecured loan is not likely to be repaid to the associate company in the near term and there are no fixed repayment terms for this loan.

Experienced promoters and qualified management team

Late B.G. Raghupathy, the Founder of the BGR group along with Sasikala Raghupathy promoted GBGR in June 2007. B.G. Raghupathy had been instrumental in the growth of the company as an established player in the online tube cleaning system and debris filters market.

Following the demise of the founder, management of the companies were segregated amongst the second generation of the promoter family namely Arjun Raghupathy Govind, Priyadarshini Raghupathy and Swarnamukhi Karthik. As per the segregation, operations of GBGR, Schmitz India Pvt Ltd, BGR Tech Ltd and Progen Systems and Technologies Ltd were managed by Priyadarshini Raghupathy. The promoter family has initiated a realignment of the shareholding of the companies among the family members aligning to the operational segregation effective from January 11, 2024, under which 99.65% shares of GBGR is transferred to the managing director, Priyadarshini Raghupathy. Reconstitution of the board is also initiated to comply in line with the segregation between the second-generation family members. GBGR does not have operational linkages with the companies promoted by other family members and is independently managed by Priyadarshini Raghupathy who is ably assisted by qualified and experienced management team.

Key weaknesses

Moderate scale of operations; limited by market size albeit improvement in FY23

Though the company has been in operations for a long period of time, the scale of operations has been moderate with income ranging from ₹50- ₹85 crore during FY18 to FY22 period. The company has reported total operating income (TOI) of ₹103.59 crore in FY23, marking growth rate of 79% driven by improving order flow from domestic EPC players and deferral of few domestic orders from previous year. The company has achieved TOI of ₹62.22 crore in H1FY24 and the scale is likely to be range bound at about ₹100-120 crore limited by the market size of the segment in which it operates.

Reputed clientele with long-standing relationship, however increasing client concentration risk

GBGR supplies tube cleaning system and debris filters to almost all major EPC players in the country. Few of the major customers of GBGR include BHEL, Coromandel, TATA projects, among others in the domestic market and General Electric, Mitsubishi, Siemens, Doosan Heavy Industries, Toshiba Corporation, among others in the export market. Due to limited players dominating the global EPC market, GBGR gets repeat orders majorly from these clients. Although the company has been able to bag repeat orders from some of the major clients, the reliance on the top customers has also increased over the years. The contribution to the revenue of the top 10 clients has increased from 63% in FY22 to 72% in FY23 and further to 87% in H1FY24.

Elongating operating cycle

Typical to companies operating in power sector projects, operating cycle of GBGR remains high because of delay in realization of receivables along with retention money translating into a higher collection period. Retention money is around 10% of the order value, which is typically realized after 12-18 months of satisfactory performance. Counter party risk is limited as most of the clients both at the domestic and global level are reputed players. With improved collections in FY23 from private sector players, the collection period has seen a reduction to 123 days as against 168 days in FY22. Operating cycle days stood at 185 days in FY23 as against 233 days in FY22.

Liquidity: Adequate

Liquidity profile is adequate marked by sufficient accruals as against debt repayment obligations of ₹2.50 crore. Average collection period remains longer, albeit the improvement is seen in FY23. However, the company manages the working capital mainly through mobilization advances and internal accruals. The average utilization for fund-based cash credit (CC) limit for 12 months ended December 2023 was at 17.32%. GBGR reported unencumbered free cash balance of ₹0.72 crore as on March 31, 2023.

Applicable criteria

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economicIndicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Other industrial products

GBGR specializes in manufacturing of OLTCS and debris filters catering to power plants and desalination plants. Apart from income from sale of OLTCS and debris filters, the company also generates revenue from sale of spare parts and service income. The company has the manufacturing unit located at Nellore district in Andhra Pradesh. Daily operations of the company are managed by the managing director, Priyadarshini Raghupathy who is ably assisted by a qualified and experienced management team.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	57.87	103.59	62.22
PBILDT	9.34	14.31	16.41
PAT	4.64	10.68	9.97
Overall gearing (times)	0.47	0.51	NA
Interest coverage (times)	3.37	5.22	9.83

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to 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: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

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		-	-	-	10.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	56.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	1.54	CARE A3+
Term Loan-Long Term		-	-	31-03-2029	8.09	CARE BBB; Stable

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 2023-2024	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
1	Fund-based - LT- Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Mar-23) 2)CARE BBB; Stable (01-Apr-22)	-	1)CARE A-; Stable (03-Mar-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	56.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (21-Mar-23) 2)CARE BBB; Stable / CARE A3+ (01-Apr-22)	-	1)CARE A-; Stable / CARE A2+ (03-Mar-21)
3	Term Loan-Long Term	LT	8.09	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Mar-23) 2)CARE BBB; Stable (01-Apr-22)	-	1)CARE A-; Stable (03-Mar-21)
4	Non-fund-based - ST-Forward Contract	ST	1.54	CARE A3+	-	1)CARE A3+ (21-Mar-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Non-fund-based - ST-Forward Contract	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:

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