

## GEA BGR Energy System India Limited

December 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	16.34 (Reduced from 18.09)	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	56.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Short-term bank facilities	1.54	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rating sensitivities: Factors likely to lead to rating actions

Ratings assigned to bank facilities of GEA BGR Energy System India Limited (GBGR) consider the company's track record with established market position in online tube cleaning system (OLTCS) and debris filters used in power/desalination projects, in-house design, technology and engineering capabilities, reputed clientele with long-standing relationship and improved scale of operation. Ratings take note of sustenance in scale of operation and improvement in profitability margin in FY24. However, ratings continue to be constrained by limited market size, dependence on thermal power sector for majority orders, elongated operating cycle, increasing client concentration risk and profitability susceptible to raw material price volatility and forex fluctuation.

### 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 a sustained basis 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, considering its long-standing relationship with reputed clientele.

### Detailed description of 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 manufacturing tube cleaning system segment and debris filters. With its long-standing presence, the company has developed a strong expertise over the years and technology has gained good

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

acceptance in domestic and global markets. The company has installations of over 4,000 units in ~55 countries. The company is among the few players globally in manufacturing 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 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 company's forte lies in its strong design and engineering capabilities. The company's products are used in cleaning water-cooled condensers in power plants, which directly improves efficiency and output of the power plant. The company has also added industrial valves as a new product to its portfolio. With addition of orders in the valve segment, the company expects to expand its customer base beyond power sector. GBGR is also in the process of developing a miniature version of OLTCS, which can be used in large air conditioners/chiller plants used in commercial spaces such as malls and multiplexes.

### **Improvement in Profitability Margin in FY24 and H1FY25**

Despite improvement in scale, the company's profitability was affected in FY23 due to exceptional expense in the form of write off of ₹12.98 crore against a disputed export order. Adjusting for this exceptional expense, profit before interest, lease rentals, depreciation, and taxation (PBILDT) percentage works out at 26.34% in FY23 against 16.14% in FY22. The company continued to maintain the profitability position in FY24 with PBILDT percentage of 23.90%, which is in line with pre-covid levels. PBILDT percentage remained stable at 23% in H1FY25 and is envisaged to sustain in the medium term.

### **Key Weaknesses**

#### **Moderate scale of operations; limited by market size**

Though the company has been in operation for a long time, scale of operations has been moderate with income ranging from ₹50- ₹85 crore from FY18-22. The company has reported total operating income (TOI) of ₹103.59 crore in FY23 and nearly sustained scale in FY24 with marginal growth of 3%. In H1FY25, TOI moderated to ₹54.95 crore against ₹62.22 crore in H1FY24 with slowdown in order flow in initial quarters. As of November 2024, the company has an order book worth ₹34.39 crore, with ~₹76 crore worth of orders in the pipeline, pending client confirmation. In FY24, GBGR introduced a new product line—industrial valves—which contributed revenue of ₹4.14 crore in the year.

#### **Reputed Clientele with Increased Customer Concentration**

GBGR supplies tube cleaning system and debris filters to almost all major EPC players in the country. Few major customers of GBGR include BHEL, Coromandel, and TATA projects, among others in the domestic market and General Electric, Mitsubishi, Siemens, Doosan Heavy Industries, and 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. Though the company has been able to bag repeat orders from some major clients, reliance on top customers has also increased over the years. Revenue concentration from top 10 customers stood at 87% in FY24 (PY: 80%).

## Elongated working capital cycle

Typical to companies operating in power sector projects, operating cycle of GBGR remains high because of delay in realisation of receivables and retention money translating to higher collection period.

Retention money is ~10% of the order value, which is typically realised after 12-18 months of satisfactory performance. For domestic orders, the company offers a credit period of 60 to 90 days from billing. For export orders, 20-30% of the order value is received as an advance, 60-70% in project execution based on milestones, and remaining 10% is held as retention money, released after 12-18 months of satisfactory performance. Counterparty risk is limited as most clients domestic and global levels are reputed players. The company also needs to maintain 3-4 months of inventory to ensure timely execution and supply of orders, whereas suppliers extend credit period up to 60 days. With higher inventory and receivable holding, operating cycle for FY24 stood elongated at 227 days.

## Liquidity: Adequate

Liquidity profile is adequate marked by GCA of ₹18.75 crore in FY24 against debt repayment obligations of ₹3.76 crore. Average collection period remains longer. However, the company manages working capital mainly through mobilisation advances and internal accruals. Average utilisation for fund-based limits for 12-months ended October 2024 was minimal at 6%. GBGR reported unencumbered free cash bank balance and liquid funds of ₹12.08 crore as on March 31, 2024 (PY: ₹0.72 crore).

## Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

GBGR specialises in manufacturing OLTCs and debris filters catering to power plants and desalination plants. The company also generates revenue from sale of spare parts and service income. The company has its manufacturing unit at Nellore, Andhra Pradesh. In recent years, GBGR ventured into a new product line of Industrial valves. The company's daily operations are managed by the Managing director, Priyadarshini Raghupathy, who is ably assisted by a qualified and experienced management team.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	H1FY25 (UA)
<b>Total operating income</b>	103.59	106.81	54.95
<b>PBILDT</b>	14.31	25.53	12.75
<b>PAT</b>	10.68	14.89	8.34
<b>Overall gearing (times)</b>	0.52	0.42	NA
<b>Interest coverage (times)</b>	5.22	8.57	10.89

A: Audited; UA: Unaudited; NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** 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 and 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		-	-	March 2029	6.34	CARE BBB; Stable

#### Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (22-Feb-24)	1)CARE BBB; Stable (21-Mar-23) 2)CARE BBB; Stable (01-Apr-22)	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	56.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (22-Feb-24)	1)CARE BBB; Stable / CARE A3+ (21-Mar-23)	-

							2)CARE BBB; Stable / CARE A3+ (01-Apr-22)	
3	Term Loan-Long Term	LT	6.34	CARE BBB; Stable	-	1)CARE BBB; Stable (22-Feb-24)	1)CARE BBB; Stable (21-Mar-23) 2)CARE BBB; Stable (01-Apr-22)	-
4	Non-fund-based - ST-Forward Contract	ST	1.54	CARE A3+	-	1)CARE A3+ (22-Feb-24)	1)CARE A3+ (21-Mar-23)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

#### Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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