Landis+Gyr Limited

June 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/short term Non-fund based Limits	34.00	22.33	[ICRA]BB (Stable)/[ICRA]A4; Reaffirmed
Total		**22.33**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) and the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 22.33-crore non-fund based bank facilities of Landis+Gyr Limited (LGL). The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation factors in the impact of the company's healthy order book position, leading to a higher turnover in FY2018. ICRA expects this improvement in turnover to continue in FY2019. A higher asset sweating would lead to a gradual reduction in losses from the metering business in FY2019. Further, LGL's software services segment, namely Global Development Centre, providing technical, research and software services to the group companies, offers a steady flow of revenue against the volatile revenue from the metering segment. It further augments LGL's delivery capabilities in providing end-to-end smart grid solutions. In addition, LGL benefits from technological support, global procurement strategy and group support for exports and internal systems as it is a part of the Landis+Gyr Group.

The rating, however, is constrained by the adverse capital structure and debt protection metrics of the company. ICRA notes that LGL's gearing stood at 40 times (provisional) in FY2018, due to erosion of net worth during the year. While better profitability is expected to result in accretion in net worth in FY2019, the gearing is estimated to remain high. Weak profitability had led to depressed debt coverage indicators, as reflected by interest coverage of only 0.07 times in FY2018. Coverage indicators are expected to improve in FY2019, but it would still remain under pressure. Long working capital cycles, as prevalent in the industry, constraint its liquidity position, although ICRA notes that the company usually maintains an adequate working capital buffer. Notwithstanding the same, there were some delays due to technical grounds in servicing a Rs. 2-crore short-term loan in March 2017, which was subsequently refinanced in April 2017. The ratings are further constrained by the low pricing power and intense competition in the non-AMI metering business segment.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that LGL will benefit from the uptick in the industry cycle, resulting in higher turnover for its metering business segment, supported by stable revenue inflows from the software services segment. But, the rating is constrained due to the adverse capital structure and weak liquidity profile of the company.

Key rating drivers

Credit strengths

Healthy order book position: LGL's order book has shown a considerable improvement in FY2018 against the previous year. The financial profile of the State Electricity Boards, LGL's core clientele, is improving after implementation of the Ujjwal Discom Assurance Yojana (UDAY), giving a boost to the order inflows. Further, various Government initiatives focussing on household electrification and smart meters will prove to be beneficial for the company.

Gradual improvement in profit margins: ICRA expects the growth in LGL's order book to support higher capacity utilisation, and in turn a healthy top line growth in the near term. A higher asset sweating would lead to a gradual reduction in losses from the metering business in FY2019.

Strong expertise and prior experience of the group in Advanced Metering Infrastructure (AMI) domain: LGL's parent company, Landis+Gyr AG (LGA) is a pioneer in the energy metering business and has an extensive experience of 121 years in this domain. This expertise and experience of the group puts LGL in a strong position to benefit from the smart grid rollout and meet the increasing demand of smart meters. Further, LGL benefits by way of technological support, global procurement strategy as well as group support for exports and internal systems by being a part of the group.

Global Development Centre (GDC) providing end-to-end smart-grid solutions: LGL's GDC provides technical, research and software services to other group companies to meet their energy metering requirements. This gives the company a steady flow of revenues and accruals as against volatile revenues from the metering business and further augments LGL's delivery capabilities in providing end-to-end smart-grid solutions.

Credit challenges

Adverse capital structure and debt protection metrics: The company's net worth eroded significantly due to losses in the previous years, leading to an adverse capital structure. ICRA notes that LGL's gearing stood at 40.9 times as on March 31, 2018 and is expected to remain high at 5 times as on March 31, 2019. Additionally, weak profitability has led to poor debt coverage indicators, as reflected by an interest coverage of 0.07 times[1].

Weak liquidity profile of the company with long working capital cycles: LGL operates in an industry, which is characterised by long working capital cycles due to the weak financial profile of the state discoms. This, coupled with weak profitability from operations, has resulted in a tight liquidity position for LGL.

Intense competition in the non-AMI metering business: There is a supply glut in the electricity metering market, leading to stiff competition and pricing pressures. Moreover, orders are awarded by a competitive bidding system, leading to low pricing power.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

[Corporate Credit Rating Methodology]

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[1] Given that the payments to the parent company are made at the year end, ICRA has also calculated the adjusted interest coverage by adjusting EBITDA for the parent company payables. The adjusted interest coverage in FY2018 stood at 1.6 times.

About the company

Landis+Gyr Limited manufactures electricity meters. The company is a wholly-owned subsidiary of Landis+Gyr AG, a Swiss company supplying total metering solutions for electricity, gas, heat/cold and water for energy measurement solutions for utilities. Landis+Gyr was acquired by Japan-based Toshiba Corporation (Toshiba) in CY2011. In CY2017, Toshiba sold its share through an IPO, and shares of LGA are now listed on the Six Swiss Exchange.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	265.91	216.55
PAT (Rs. crore)	-21.89	10.33
OPBDIT/OI (%)	-4.3%	-3.1%
RoCE (%)	-20.89%	24.98%
Total Debt/TNW (times)	8.37	4.54
Total Debt/OPBDIT (times)	-6.09	-8.78
Interest coverage (times)	-1.70	-0.92

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument			Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
				Jun 18	Jun 18	Mar 17	Feb 17	Dec 15	Nov 14
1	Cash Credit	18.00					Withdrawn	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)
2	Bank Guarantee	15.00						Withdrawn	[ICRA]BBB (Stable)
3	Short term-Fund based /Non fund based	50.00	50.00		Withdrawn	[ICRA]A4	-	-	-
4	Long term/ short term-Non fund based	22.33	22.33	[ICRA]BB (Stable) /[ICRA]A4	[ICRA]BB (Stable) /[ICRA]A4	[ICRA]BB (Stable) /[ICRA]A4	[ICRA]BB (Stable)/[ICRA]A4	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB(Stable)/[ICRA]A3+
5	Long Term / Short Term-fund based / Non Fund based (SO)	88.00	88.00		Withdrawn	[ICRA]AAA(SO)/Stable/[ICRA]A1+(SO)	[ICRA]AAA(SO)/Stable/[ICRA]A1+(SO)	[ICRA]AAA(SO)/Stable/[ICRA]A1+(SO)	[ICRA]AAA(SO)/Stable/[ICRA]A1+(SO)

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

Annexure-1: Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Long term/short term-Non fund based*	-	-	-	22.33	[ICRA]BB(Stable)/[ICRA]A4

** The Non-fund based limit is of Rs.22.33 Crore which completely interchangeable between Letter of Credit and Bank Guarantee. The Non-fund based limit (LC+BG) is rated on both Long-Term and Short-Term scale and will attract tenure as per usage. As such the utilization should not exceed Rs. 22.33 Crore at any point*

Source: Landis+Gyr Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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