April 26, 2022(Revised)

Alstom Transport India Limited: Rating confirmed as final for partial bank loan facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund-based limits – LC/BG	100.0	100.0	[ICRA]A+(CE)(Stable); provisional rating confirmed as final
Non-fund based/Fund based-working capital limit^	801.0	801.0	[ICRA]A+(CE)(Stable)/ [ICRA]A1+(CE); outstanding
Non-fund-based limits – LC/BG	2900.0	2900.0	[ICRA]A+(CE) (Stable); outstanding
Total	**3801.0**	**3801.0**	

**Instrument details are provided in Annexure-1*

^Rs. 200 crore is fungible with non-fund based limits

Rating Without Explicit Credit Enhancement	[ICRA]A-/[ICRA]A2+

Rationale

ICRA had assigned a Provisional [ICRA]A+(CE)(Stable) rating to the long-term non-fund based facility of Rs. 100 crore. The rated facility is backed by an explicit credit enhancement in the form of corporate guarantee to be executed by Alstom Holding (a 100% subsidiary of Alstom SA) for ATIL's bank facilities. ATIL has shared the executed transaction documents. The provisional rating for the Rs. 100.0-crore bank facilities have been confirmed based on these documents, which are in line with the initial rating conditions.

The ratings are based on the strength of the corporate guarantees provided by Alstom Holdings (a 100% subsidiary of Alstom SA[1]) for the bank facilities of Alstom Transport India Limited (ATIL). The ratings also factor in the benefits of having a strong parent (Alstom Group) that provides continued operational synergies and funding support, as demonstrated by the regular equity infusion and a steady order inflow in recent years. ATIL's revenues increased significantly by ~44% during FY2021 on the back of a steady execution of orders received from its Group entities. Moreover, ATIL's healthy unexecuted order book of ~ Rs. 15,900 crore as on December 31, 2021 provides revenue visibility for the medium term. This includes rolling stock and associated infrastructure components/services orders from the global Alstom Group companies as well as key metro rail projects in India. Further, the company's financial profile remains comfortable with low reliance on external debt, regular equity infusion by the Alstom Group and an adequate liquidity profile (given the steady accruals and adequate cushion available from its undrawn working capital limits).

However, the ratings are constrained by ATIL's modest profit margins on the back of higher overheads in the early stages of execution of some projects, delays in the execution of some projects and limited pricing flexibility owing to intense competition in the industry. Further, metro rail projects are prone to delays (due to high gestation period for these orders), exposing the company to high escalation cost which exerts pressure on its profit margins. ICRA notes that ATIL's operations have turned profitable in FY2020 and FY2021, led by steady order execution, resulting in greater absorption of fixed overheads; However, the profitability continues to be low on account of intense competition in the industry.

The Stable outlook reflects ICRA's expectation that ATIL will continue to benefit from the support extended by the Alstom Group, a sizeable unexecuted order book and a steady future business outlook of the industry.

[1] Rated Baa2(Negative)/P-2 by Moody's Investors Service

Adequacy of credit enhancement

To assign the rating, ICRA has assessed the attributes of the guarantee issued by Alstom Holdings in favour of the said facilities. The guarantees are legally enforceable and cover the entire amount and tenure of the rated facilities. However, they do not have a well-defined invocation and payment mechanism. Further, while the guarantee documents do not explicitly mention that the guarantee is unconditional, no conditions have been specified with respect to the invocation of the said guarantees. Considering the same, ICRA has reaffirmed/assigned the ratings of [ICRA]A+(CE) (Stable)/[ICRA]A1+(CE) for the said facilities against the unsupported ratings of [ICRA]A-/[ICRA]A2+ (in relation to the guarantor's/ultimate parent's credit profile). In case the rating of the guarantor/ultimate parent or the unsupported rating of ATIL undergoes a change in the future, the same would have a bearing on the rating of the aforesaid facility/instrument. The rating of this facility may undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor/ultimate parent and the rated entity, or a change in the guarantor/ultimate parent's reputation sensitive to a default by the rated entity, or a change in the strategic importance of the rated entity for the guarantor/ultimate parent.

The rated facilities include fund-based and non-fund based lines from eight lenders. Of these, in case of facilities of three lenders and non-fund based facility of Rs. 300 crore from the fourth lender, the guarantees by Alstom cover all amounts due under the facilities, including the entire accrued interest, commission and other costs. For the facilities from three lenders, however, the maximum liability of Alstom under the terms of these guarantees is capped at their principal amount (as it does not cover additional accrued interest, commission, and other costs). For the said guarantees, ICRA has taken comfort from the confirmation provided by the lenders concerned that the drawdown under these facilities would be permitted only to the extent that the amounts due under the facility (including interest accrued, commission and other costs) shall not exceed the guaranteed amount. For the remaining facilities, the guarantee amount adequately covers the principal amount and other associated obligations (including accrued interest, commission and other costs).

For facilities from six of the eight lenders, the guarantees are valid for the entire tenure. In case of the remaining facilities that are revolving in nature and subject to renewal every year, the respective guarantees are valid until December 2023/April 2024. Accordingly, if these guarantees are not renewed even as the facilities are renewed, ICRA will review the ratings as per its policy.

Salient covenants of the rated facilities

- *The facility is non-committed revolving guarantee facility, and it may be terminated at any time by the bank by providing the principal with a prior notice of five banking days.*
- *The borrower must not enter into any merger or consolidation or sell, assign a lease over or otherwise dispose of a substantial part of its assets or business, without the bank's prior written consent.*

Key rating drivers and their description

Credit strengths

Strong parentage –ATIL benefits from its strong parentage - Alstom SA - which is a leading global rail transport infrastructure company and has provided continued operational synergies and funding support. This is demonstrated by the regular equity infusion in recent years and a steady order inflow from the global Alstom Group companies. Also, the credit enhancement in the form of corporate guarantee by Alstom Holding (a 100% subsidiary of Alstom SA) for ATIL's bank facilities reinforces Alstom's commitment.

Healthy order book – ATIL has a healthy unexecuted order book of around Rs. 15,956 crore as on December 31, 2021 which provides revenue visibility over the medium term. This includes rolling stock and associated infrastructure components/services orders from the global Alstom Group companies as well as key metro rail projects in India (Mumbai, Pune, Kochi, etc). Around 70% of the current order book comprises projects from its own Group entities (which also includes a major order from Group entity – Madhepura Electric Locomotive Private Limited) and are witnessing a steady execution track-record.

Comfortable capital structure– With continued capital support by the parent, the gearing remains adequate at 0.4 times in FY2021. Improved order execution and timely payments have reduced the reliance on external debt (nil as on December 31, 2021). ATIL incurred losses during the initial years; however, it has turned profitable in FY2020 and FY2021.

Credit challenges

Competitive nature of industry – – The industry is highly competitive and has numerous established players like BEML Limited, CRRC Nanjing (China), Titagarh Wagons Hyundai Rotem and Mitsubishi Electric Siemens AG and Ansaldo STS. This intensifies competition and limits the pricing flexibility of the industry participants, including ATIL. However, the company benefits to an extent on account of its strong parentage, technical and execution expertise and diverse product/service offering. ATIL is expected to benefit from the steady inflow of internal orders.

Low profit margins; exposed to executional delays – The metro rail projects have long gestation periods and are prone to delays, exposing the company to the risk of cost escalations. This, coupled with higher overheads in the early stages of execution of some projects and competitive pressures, has led to modest profit margins. ATIL's operations have turned profitable in FY2020 and FY2021, led by steady order execution, resulting in greater absorption of fixed overheads. However, the profitability continues to be low on account of intense competition in the industry. Going forward, the improvement in margins will be driven by economies of scale, although contingent on the timely execution of the existing projects and inherent profitability of the incremental order inflow.

Loans extended to Group companies – ATIL has extended loans to some of its Group companies in India; however, the same was largely funded through the equity infused in ATIL by its parent. Continued support to the Group companies funded through its own cash flows and the funding requirements of a sizeable unexecuted order book could increase the reliance on external debt.

Liquidity position – Guarantor : Adequate

The liquidity position of the guarantor/ultimate parent is adequate, supported by its track record of conservative financial policy, steady internal accrual generation and sizeable cash surplus.

Liquidity position – ATIL : Adequate

The liquidity position is adequate, supported by funding support from the parent (demonstrated by sizeable equity infusion in recent years) and bank lines, which are backed by corporate guarantees. Moreover, it has undrawn working capital limits of ~Rs. 601 crore, free cash of ~ Rs. 41.5 crore and nil external debt as on December 31, 2021. With expectations of steady order inflows/execution coupled with timely payments, the reliance on external debt is expected to remain low.

Rating sensitivities

Positive Factors: ICRA could upgrade the ratings if the overall credit profile of the guarantor improves.

Negative Factors: Weakening of the credit profile of the guarantor, or any adverse change in the linkage between the guarantor and ATIL could lead to a rating downgrade. A sustained pressure on revenues, inability to improve profitability due to slower execution of the unexecuted order book and lower order inflow could be the other negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Policy on Assigning Provisional Ratings

Parent/Group Support	Ultimate Parent: Alstom SA The unsupported rating factors in the high likelihood of Alstom SA, extending financial support because of ownership structure and business linkages a the entities; the Group has a track record of extending financial support to ATIL
Consolidation/Standalone	Standalone

About the company

ATIL was set up in 2011 by the Alstom Group to manufacture rolling stock for the Indian metro market. The company's manufacturing facilities are in SriCity, Andhra Pradesh, and Coimbatore, Tamil Nadu. ATIL has an established presence in the rail transport segment with the support of the Alstom Group.

About the Guarantor

Alstom Holding is a 100% subsidiary of Alstom SA, one of the global leaders in rail transport equipment, service and signalling for urban, suburban, regional, and main line passenger and freight transportation. The Group operates with manufacturing facilities across the world and is one of the leading players in the industry.

Key financial indicators (audited)

Particulars	FY2020	FY2021
Operating Income (Rs. crore)	2,615.4	3,757.9
PAT (Rs. crore)	23.7	205.2
OPBDIT/OI (%)	5.4%	3.8%
PAT/OI (%)	0.9%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	2.2
Total Debt/OPBDIT (times)	3.9	4.6
Interest Coverage (times)	3.2	3.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					April 26, 2022	Mar 31, 2022	July 22, 2021	Dec 29, 2020	Jun 26, 2019
1	Non-fund based/fund based – working capital limit	Long-term/Short-term	801*	-	[ICRA]A+(CE) (Stable)/[ICRA] A1+(CE)	[ICRA]A+(CE) (Stable)/[ICRA] A1+(CE)	[ICRA]A+(CE) (Stable)/[ICRA] A1+(CE)	[ICRA]A+(CE) (Stable)/[ICRA] A1+(CE)	[ICRA]A+ (SO) (Stable)/ [ICRA]A1+ (SO)
2	Non-Fund Based – LC/BG	Long-term	2900.0	-	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+ (SO) (Stable)
3	Non-Fund Based – LC/BG	Long-term	100.0	-	[ICRA]A+(CE) (Stable)	Provisional; [ICRA]A+(CE) (Stable)	-	-	-

SO suffix has been replaced by CE suffix

**Rs. 200 crore is fungible with non-fund based limits*

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**

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based Working Capital	Simple
Long-term/ Short -term – Non-Fund Based Working Capital	Very Simple
Long-term/Non– Fund Based LC/BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: 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	Non-fund based/fund based – working capital limit	-	-	-	801.0	[ICRA]A+(CE) (Stable)/ [ICRA]A1+(CE)
NA	Non-fund based limits – LC/BG	-	-	-	2900.0	[ICRA]A+(CE) (Stable)
NA	Non-fund based limits – LC/BG	-	-	-	100.0	[ICRA]A+(CE) (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Corrigendum:

Document dated April 26, 2022 has been corrected with revisions as detailed below:

Short-term rating without explicit credit enhancement at Page no. 1 in the Summary of rating action section has been rectified from A2 to A2+

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 61143441
girishkumar@icraindia.com

Siddhartha Kaushik
+91 124 4545323
siddhartha.kaushik@icraindia.com

Peeush Middha
+91 124 4545330
peeush.middha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches