July 29, 2022

GE Power Systems India Private Limited (erstwhile Alstom Bharat Forge Power Private Limited): Ratings reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non fund Based Limits – LC/BG	2,475.00	2,475.00	[ICRA]A-/[ICRA]A2+ reaffirmed; outlook revised to Negative from Stable
Unallocated	525.00	525.00	[ICRA]A-/[ICRA]A2+ reaffirmed; outlook revised to Negative from Stable
Total	**3000.00**	**3000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook factors in the continued pressure on the performance of GE Power Systems India Private Limited (GEPSIPL), reflected in the muted demand outlook, shrinking order book and contraction of revenues which is expected to result in subdued profitability for the company in the near term. Muted order inflow for turbine generators (TGs) in recent years due to limited fresh thermal power generation capacity addition and competition in the industry has led to a steady decline in the company's revenue visibility. The revenue booking for the current fiscal, i.e. FY2023, is expected to remain low with no significant revenue booking from the nuclear TG set order of BHEL and limited revenue from the coal power segment due to the stretching of the execution of the order book till FY2024.

Cost overruns during the second wave of the pandemic and project delays led to losses at the operating level in FY2022. The ratings take into consideration the susceptibility of GEPSIL's profitability to any executional delays in the ongoing projects and elevated funding requirements due to increase in debtor levels (including retention money), translating into continued reliance on the internal group borrowing.

GE has announced that it will sell its global nuclear-serving steam turbine business. This adds further uncertainty to the company's prospects in this segment, going forward. However, the execution of this deal will take some time and currently EDF's due diligence is in process. ICRA will continue to monitor the developments in this regard.

However, the ratings draw comfort from the release of sizeable retention money in the next three years which support the liquidity, the order inflow from BHEL for nuclear TGs for its three power plants and the expected order inflow and execution from the service/retrofit business. The ratings also positively factor in the technological and financial support that GEPSIL gets from the GE Group and the company's position among the major players in the super-critical power plant equipment (turbine generators) in India with strong technical/executional capabilities. Additionally, the company's key clientele includes reputed industry participants, which lowers its overall credit risk to some extent.

Key rating drivers and their description

Credit strengths

Strong parentage – GEPSIL benefits from its strong parentage (ultimate parent: GE) in terms of technical and financial support. GEPSIL has access to borrowing from the GE Group's internal cash pool to meet its working capital requirements.

Clientele includes reputed companies – GEPSIL's key clients include reputed public sector enterprises such as BHEL, NTPC and Neyveli Uttar Pradesh Power Limited, which help to lower its exposure to credit risks.

Comfortable capital structure – GEPSIL does not have any external bank debt on its balance sheet. Although the increased cost of project execution and high retention money receivables have increased the borrowings from GE companies/internal cash pool, which stand at Rs. 519 crore as of March 2022, the capital structure remains comfortable. However, going forward, the capital structure will be largely contingent on the level of positive internal accruals and the funding requirements of the business.

Credit challenges

Muted demand outlook, decline in revenue visibility – New orders for thermal TGs have declined due to limited fresh thermal power capacity addition and GE's decision to exit the new build coal business, leading to a steady decline in the company's unexecuted order book which was ~Rs. 973 crore (excluding nuclear orders) as of March 2022. Further, the demand outlook for the coal power segment is likely to remain muted on account of no significant capacity addition in the near future. In the current fiscal, GEPSIPL will be doing the basic engineering and design work for the nuclear orders. Thus, no major revenue is expected from this order in FY2023. With the execution of the opening coal power segment order book extending to FY2024, the revenue visibility from this segment for FY2023 remains weak. GEPSIPL's ability to secure fresh orders in coal-based power segment and the retrofit/replacement demand for ageing thermal power plants (both in the domestic market and from GE Group companies globally) will be crucial for its revenue and profitability.

Elevated funding requirements – Delays in executing the existing orders and the high retention money level in recent years have elevated GEPSIL's funding requirements, translating into increasing reliance on GE's cash pool. A sizeable sum of money is stuck in the form of retention money, and hence the funding requirements will be driven by cash accruals, the level of fresh order inflow and timely release of retention money in the future.

Susceptibility to executional delays – The profitability remains susceptible to any executional delays in ongoing projects, which results in cost overruns for the company.

Liquidity position: Adequate

GEPSIL's liquidity profile is adequate, supported by access to GE's internal cash pool with sanctioned limits of Rs. 800 crore (~Rs. 281 crore unutilised as on March 31, 2022), undrawn fund-based bank lines (Rs. 31 crore) and no term loan repayment liability. The funding requirements of the business have increased on the back of high debtor levels (including retention money) and pressures on profitability owing to a decline in revenues and lower absorption of fixed costs. This has been partly funded through continued borrowings from the GE Group's internal cash pool. Going forward, release of significant retention money will support the liquidity.

Rating Sensitivities

Positive factors – Strong revenue growth and improvement in profit margins on the back of a steady execution of the order book and a sizeable order inflow in new segments could lead to a rating upgrade. Reduction in debt levels on a sustained basis would also be a positive trigger.

Negative factors – GEPSIPL's ratings could be downgraded if there is a further decline in revenue visibility due to low order inflow; or if the company is unable to improve its profit margins and cash flow generation. The ratings mays be downgraded if the working capital cycle is stretched and there is a greater reliance on debt. Moderation in the long-term business prospects due to GEPSIPL's reduced strategic importance for the parent (GE) and deterioration in the credit profile of GE could also lead to a rating downgrade.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Impact of Parent or Group Support on an Issuer's Credit Rating](#)
Parent/Group support	Ultimate Parent Company: General Electric Company Ratings are based on the implicit support from the ultimate parent, primarily in the form of technological and financial support
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the Company

GEPSIL was incorporated in January 2010 as a joint venture between Alstom Power Holdings and Bharat Forge Limited (BFL). The GE Group had taken over Alstom's shareholding in November 2015 and subsequently acquired BFL's stake in 2017-2018. As a result, GEPSIL is now a 100% GE Group-owned company. GEPSIL's manufacturing facility at Sanand (Gujarat) has a 3,000-MW installed capacity for manufacturing turbine generators for supercritical thermal power projects.

Key financial indicators (Provisional)

GEPSIPL	FY2021	FY2022 (Prov)
Operating income (Rs. crore)	1109.8	856.4
PAT (Rs. crore)	-373.7	-118.8
OPBDIT/OI	-2.8%	-2.8%
PAT/OI	-33.7%	-13.9%
Total outside liabilities/Tangible net worth (times)	2.1	-
Total debt/OPBDIT (times)	-11.1	-21.9
Interest coverage (times)	-0.5	-0.6

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 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 29, 2022	Feb 22, 2022	Feb 01, 2021	Sep 6, 2019
1	Non fund-based Facilities – LC/BG	Short- Term/Long- term	2,475.0	-	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+(Stable)/ [ICRA]A1+
2	Unallocated	Short-term/Long-term	525.0	-	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+(Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based Facilities – LC/BG	Very Simple
Unallocated	NA

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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non fund Based Limits – LC/BG	NA	NA	NA	2,475.0	[ICRA]A-(Negative)/ [ICRA]A2+
NA	Unallocated	NA	NA	NA	525.0	[ICRA]A-(Negative)/ [ICRA]A2+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

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

Parag Somani
+91 124 4545319
parag.somani@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