

December 20, 2022

GE Power India Limited (erstwhile Alstom India Limited): Long Term rating downgraded, short term rating reaffirmed; Outlook remains Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – working capital	390.00	390.00	[ICRA]A-(Negative); downgraded from [ICRA]A(Negative)
Long-term/short-term – non-fund based – BG/LC	4,450.00	4,450.00	[ICRA]A-(Negative) downgraded from [ICRA]A(Negative) / [ICRA]A2+ reaffirmed
Unallocated	200.00	200.00	[ICRA]A-(Negative) downgraded from [ICRA]A(Negative)/[ICRA]A2+ reaffirmed
Total	5,040.00	5,040.00	

*Instrument details are provided in Annexure-I

Rationale

The rating downgrade factors in the expectation of significant losses in FY2023 owing to significant cost pressures, one-time expenses due to accident at one of the project execution site and slow pace of project execution. The company had witnessed significant cost pressures and under-absorption of costs in FY2022 due to hardening of commodity prices. The trend continued in H1 FY2022-23 as well for few other projects of the company resulting in large cost absorptions. The company's profitability also witnessed a major headwind owing to a fire incident at one of its Flue Gas Desulphurisation (FGD) installation site at NTPC Limited's (NTPC, rated [ICRA]AAA (Stable)/[ICRA]A1+) Solapur plant. The fire incident resulted in a provision of Rs. 78 crore including damage to equipment and expected Liquidated Damages (LD) that maybe levied by NTPC. However, the equipment damage loss maybe recovered partly through insurance proceeds. The pace of project execution has also remained slow owing to issues faced by the company in terms of contractor financial health and customer related issues. The project order intake for the company had remained slow for the last couple of years due to Covid-19 induced project deferments by the customers. However, the company's order intake has witnessed improvement in H1 FY2023. However, the profitability of the company remains susceptible to the challenges of timely execution of orders and volatility in the prices of key raw materials and bought-out components, given the relatively long project-execution cycle and the fixed-price nature of some contracts

The ratings draw comfort from GEPIL's established position in the thermal and hydropower plant equipment and services industry in India, supported by technological and financial benefits derived from its strong parent, General Electric Company (GE), and its strong technical/execution capabilities. Access to GE's cash pool with a sanctioned limit up to Rs. 375 crore and the expected release of a substantial sum of retention money in FY2024 provide comfort on liquidity.

While the parent, General Electric Company (GE¹), has announced that it will de-promoterise GEPIL by February 2025, it intends to strengthen GEPIL technologically and financially by transferring IPRs, extending technological support and helping GEPIL in catering to new export markets. ICRA will closely monitor the developments (including availability of cash pool) in this regard. ICRA also notes the increase in outstanding receivables (majorly retention money), translating into increased reliance on

¹ rated Baa1(Negative) by Moody's Investors Service

working capital debt. However, with the FGD contracts nearing completion, a sizeable amount of retention money is expected to be released in FY2024, which will bring down the working capital requirement.

The continued Negative outlook on GEPIL's rating reflects the subdued demand outlook, pressure on margins due to high commodity prices and elevated working capital borrowings which will keep the coverage indicators under pressure.

Key rating drivers and their description

Credit strengths

Established operational track record in power equipment industry – GEPIL is one of the major players in the power equipment industry with an operational track record of several decades. It manufactures/supplies critical equipment, including boilers, emission control equipment/systems, etc. for power plants (thermal and hydro), and provides associated services.

Diversified revenue stream: The company's revenues are well-diversified with a wide range of products and services like critical electrical and industrial equipment, including boilers and pollution-control equipment like FGD systems for power plants, along with associated services.

Benefits of strong parentage – GEPIL benefits from its parentage (ultimate parent: GE) in terms of technical and financial support. Additionally, being part of the GE Group provides it access to orders from GE Group companies globally. Though GE plans to de-promoterise GEPIL in the next three years, it will continue to strengthen GEPIL technically and financially during this transition period and supporting the company in venturing into new geographies earlier served by GE. ICRA will continue to monitor the developments in this regard.

Credit challenges

Decline in revenue due to lower order inflow – The new order intake has been decreasing over the last 2-3 years due to the impact of Covid-related disruptions, import restrictions from China, deferred capex plans by customers and decrease in FGD orders on account of the deferment of the implementation timelines. However, order inflow in FGD is expected to pick up with the uptick in demand from state and private gencos due to more clarity in the implementation guidelines. While the company has witnessed improvement in order inflow in H1 FY2022-23, the pace of execution and impact of commodity price changes will remain a key monitorable.

Volatility in profit margins due to input costs; susceptibility to any delays in project execution – GEPIL's profit margins remain susceptible to the delays in executing orders and the volatility in prices of key raw materials and bought-out components, given the relatively long project execution cycle and the fixed-price nature of some contracts.

Elevated funding requirements – GEPIL's reliance on working capital borrowings has increased considerably on the back of a rise in outstanding receivables (largely retention money build-up) from FGD contracts with high retention clauses. However, as these contracts are nearing completion in FY2023/24, the expected release of retention money in FY2024 should bring down the working capital borrowings as well as support liquidity.

Intense competition and subdued demand outlook – The industry remains highly competitive with established local players and global majors. The outlook for capacity addition in the thermal segment remains subdued while the FGD capex is entering its last phase of execution as thermal plants will look to achieve project completion before the December 2026 timeline. The order book now majorly comprises of hydro projects which are usually long duration projects and prone to timeline delays leading to slower revenue accretion.

Liquidity position: Adequate

The liquidity position is adequate, supported by free cash balance of ~Rs. 205.4 crore as on September 2022, undrawn bank lines (~Rs. 140 crore as on September 30, 2022), access to GE's internal cash pool with sanctioned limits of Rs. 375 crore (Rs 275 crore unutilised as on September 30, 2022) and no term loan repayment obligation. Although GEPL's funding requirements remain elevated due to the build-up of retention money, the same is expected to be substantially released by Q3/Q4 FY2024 with the completion of sizeable orders.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade over the near term is less likely. The outlook could be revised to stable if a steady execution of the existing order book and healthy incremental order inflow enable GEPL to demonstrate a strong revenue growth and improve its profit margins on a sustained basis along with an improvement of the key credit metrics on a sustained basis.

Negative factors – GEPL's ratings could be downgraded if there is considerable and continuous decline in revenues and reduction in profit margins and cash flow generation. Moreover, a stretched working capital cycle exerting pressure on the liquidity position, or a deterioration of the credit profile of GE could 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 implicit support from ultimate parent, primarily in the form of technological and financial synergies
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

GEPL is engaged in the business of engineering, procurement, and construction of key equipment for thermal and hydropower plants. It manufactures and/or supplies critical electrical and industrial equipment, including boilers, turbines and pollution-control equipment for these power plants, along with associated services. The company's manufacturing facility is in Durgapur (West Bengal). The company is owned by GE (General Electric Company, US) with a 68.58% shareholding in the company through its group company - GE Steam Power International BV.

Key financial indicators (audited)

GEPL	FY2021	FY2022
Operating income (Rs. crore)	3,343.0	2,620.4
PAT (Rs. crore)	70.5	-291.8
OPBDIT/OI	4.2%	-6.6%
PAT/OI	2.1%	-11.1%
Total outside liabilities/Tangible net worth (times)	3.0	4.0
Total debt/OPBDIT (times)	2.2	-1.7
Interest coverage (times)	2.5	-2.5

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					
		Type	Amount rated	Amount outstanding	Date & rating		for the past 3 years					
			(Rs. crore)	(Rs. crore)	20-Dec-22	28-Jun-22	18-Nov-21	20-Aug-21	1-Feb-21	4-Nov-20	23-Mar-20	27-Sep-19
1	Fund-based working capital limit	Long term	390	-	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-fund based limits – BG/LC	Long term/Short term	4450	-	[ICRA]A- (Negative) / [ICRA]A2+	[ICRA]A (Negative) / [ICRA]A2+	[ICRA]A+ (Negative) / [ICRA]A1	[ICRA]A+ (Negative) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+
3	Unallocated	Long term/Short term	200	-	[ICRA]A- (Negative) / [ICRA]A2+	[ICRA]A (Negative) / [ICRA]A2+	[ICRA]A+ (Negative) / [ICRA]A1	[ICRA]A+ (Negative) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund based working capital limit	Simple
Long-term/Short-term – Non-fund based BG/LC	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Working capital	NA	NA	NA	390.0	[ICRA]A- (Negative)
NA	Long-term/short-term – Non Fund based – BG/LC	NA	NA	NA	4450.0	[ICRA]A- (Negative)/[ICRA]A2+
NA	Unallocated	NA	NA	NA	200.0	[ICRA]A- (Negative)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis-NA

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