

June 06, 2023

GE Power India Limited (erstwhile Alstom India Limited): Ratings downgraded to [ICRA]BBB+/[ICRA]A2; 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]BBB+(Negative); downgraded from [ICRA]A-(Negative)
Long-term/short-term – non-fund based – BG/LC	4,450.00	4,450.00	[ICRA]BBB+(Negative)/[ICRA]A2; downgraded from [ICRA]A-(Negative)/[ICRA]A2+
Unallocated	200.00	200.00	[ICRA]BBB+(Negative)/[ICRA]A2; downgraded from [ICRA]A-(Negative)/[ICRA]A2+
Total	5,040.00	5,040.00	

*Instrument details are provided in Annexure-1

Rationale

The proposed rating downgrade factors in GE Power India Limited's (GEPIL) weaker-than-expected revenue booking and increased provisions in FY2023, which have resulted in significant losses at the operating and net level for the company. The Negative outlook comes on the back of expectations of continued losses in FY2024 owing to a sustained weak order book position, translating into lower revenue booking and therefore under-absorption of fixed overhead costs. The company had witnessed significant cost pressures in FY2023 due to hardening of commodity prices as well.

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 Solapur plant. While the provision of Rs. 99.97 crore (including damage to equipment and expected liquidated damages (LD) that maybe levied by NTPC) is expected to be largely recovered through insurance proceeds, the timing and quantum of the receipt remains to be seen.

Further, the project order intakes had been slow in the last couple of years as customers deferred projects because of the pandemic, relaxation of FGD implementation timelines and lack of new build-coal projects in the market. The profitability of the company remains susceptible to the challenges of timely execution of the 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. 226.0 crore and the expected release of a substantial sum of retention money in FY2024 provide liquidity comfort.

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 decrease in outstanding receivables (majorly retention money) in FY2023 because of which the debt levels have been flat despite the significant losses and decline in net worth in the fiscal. Further, with most of the FGD contracts nearing completion, a sizeable amount of retention money is expected to be released in FY2024, which will further bring down the working capital requirement.

Key rating drivers and their description

Credit strengths

Established operational track record in power equipment industry – GEPL 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 – GEPL 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 GEPL in the next two years, it will continue to strengthen GEPL technically and financially during this transition period and support 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 and profitability in FY2023– The company's revenue declined by 31.5% in FY2023 compared to FY2022. GEPL's order intake has remained slow over the last few years, resulting in a lower opening order book for FY2023. Although GEPL's order inflow improved in H1 FY2023, the pace of order execution remained slow due to deferment of orders owing to execution challenges at the customer sites. The closing orderbook for FY2023 has marginally shrunk by 4.3% vis-a-vis the previous year. The company has reported an operational loss of Rs. 328.5 crore and a net loss of Rs. 443.6 crore in FY2023 against losses of Rs. 173.0 crore and Rs. 291.8 crore in FY2022, respectively. Fresh order intake, the pace of execution and the impact of commodity price changes will remain the key monitorables.

Volatility in profit margins due to input costs; susceptibility to any delays in project execution – GEPL's profit margins remain susceptible to delays in executing orders and the 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.

Susceptibility to execution delay - The profitability remains susceptible to any executional delays in the ongoing projects, which will result in cost overruns for the company.

Intense competition and subdued demand outlook – The industry remains highly competitive with established local players and global majors. The subdued demand outlook for the industry, given the limited fresh capacity addition in thermal and hydropower plants, adds to the woes.

Environmental and Social Risks

Environmental considerations: GEPL operates at multiple project sites at any point of time and therefore the risk of business disruptions on account of physical climate risks is low. In fact, construction entities like GEPL benefit from the demand for the installation of equipment for compliance with increasing stricter environmental norms (FGDs etc) for thermal power projects. Given that construction entities generate air pollution, entities like GEPL remain exposed to the risk of temporary bans on operations in cities that are more sensitive to a deteriorating air quality.

Social considerations: Entities like GEPL face social risks stemming from the health and safety concerns of workers, manifestation of which could invite regulatory or legal action, besides reputational harm. GEPL though has a track record of maintaining healthy relationships with its workers/employees, including contractual labour, with no material incidents of slowdown in execution because of workforce management issues.

Liquidity position: Adequate

The liquidity position is adequate, supported by free cash balance of ~Rs. 213.4 crore as on March 31, 2023, undrawn bank lines of ~Rs.220.0 crore as on March 31, 2023, access to GE's internal cash pool of undrawn lines of Rs. 147.7 crore as on March 31, 2023 and no term loan repayment obligation. The expected release of retention money from the completion of the ongoing projects provides comfort.

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 a 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 rating could be downgraded if there is a sustained decline in revenues and profitability. Further, deterioration in the working capital cycle owing to elongation in the release of the period of retention money for various projects will remain a key downward trigger. A deterioration of the credit profile of GE or weakening in linkages with GE could also lead to a 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 the 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	FY2022	FY2023
Operating income (Rs. crore)	2,620.4	1,795.8
PAT (Rs. crore)	-291.8	-443.6
OPBDIT/OI	-6.6%	-18.3%
PAT/OI	-11.1%	-24.7%
Total outside liabilities/Tangible net worth (times)	4.0	11.3
Total debt/OPBDIT (times)	-1.7	-0.9
Interest coverage (times)	-2.5	-5.4

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 (FY2024)				Chronology of rating history					
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating 06-Jun-23	for the past 3 years					
						Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
						20-Dec-22	28-Jun-22	18-Nov-21	20-Aug-21	1-Feb-21	4-Nov-20
1	Fund-based working capital limit	Long term	390	-	[ICRA]BBB + (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)
2	Non-fund based limits – BG/LC	Long term/Short term	4450	-	[ICRA]BBB + (Negative) / [ICRA]A2	[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+
3	Unallocated	Long term/Short term	200	-	[ICRA]BBB + (Negative) / [ICRA]A2	[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+

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]BBB+(Negative)
NA	Long-term/short-term – Non Fund based – BG/LC	NA	NA	NA	4450.0	[ICRA]BBB+(Negative)/[ICRA]A2
NA	Unallocated	NA	NA	NA	200.0	[ICRA]BBB+(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: Not applicable

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