October 09, 2023

GE Power Systems India Private Limited (erstwhile Alstom Bharat Forge Power Private Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short -term – Non-fund based – BG/LC	2475.0	2475.0	[ICRA]BBB+ (Negative)/[ICRA]A2; reaffirmed
Unallocated	525.0	525.0	[ICRA]BBB+ (Negative)/[ICRA]A2; reaffirmed
Total	**3,000.0**	**3,000.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the strong parentage of the GE Group which has extended technological and financial support to GE Power Systems India Private Limited (GEPSIPL). ICRA notes the continued pressure on the performance of the company, reflected in the muted demand outlook, shrinking order book and contraction of revenues which is expected to result in subdued profitability in the near term. The 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. FY2024, is expected to remain low, given the weak opening order book for the ongoing coal-based orders and the extended execution timeline for nuclear orders.

GE has entered into a binding agreement with EDF, France, to sell its global nuclear business. The deal is expected to materialise by FY2024. As part of the deal, the company's manufacturing facility at Sanand, Gujarat, as well as the unexecuted nuclear business order book will be transferred to EDF, France. The sale will benefit GEPSIPL as along with the transfer of the facility, ICRA expects a sizeable reduction in fixed expenses (employee costs and overheads). Thus, with reduced operating leverage, the company's profitability will improve even though the demand prospects and the pending order book remain muted. In addition, the sale consideration will help lower the leverage (availed from GE Group companies as part of the internal cash pool) and improve its liquidity position. Timely completion of the sale is therefore a key monitorable for the ratings.

The ratings draw comfort from 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.

The outlook on the long-term rating continues to be Negative on account of a subdued order inflow and the pressure on margins due to high commodity prices and under-absorption of fixed overhead costs which is expected to result in subdued profitability in the near term.

Key rating drivers and their description

Credit strengths

Strong parentage - GEPSIL benefits from the technical capabilities of parent GE in the coal and the nuclear segment. Additionally, the company gets financial support from the parent in terms of access to the cash pool for working capital funding. Further, GE had announced its plans to exit the new-build coal business and ICRA will continue to monitor the developments in this regard.

Reputed clientele - GEPSIL's clients include some marquee Central public sector undertakings (PSUs) like Bharat Heavy Electricals Limited (BHEL), NTPC Limited (NTPC, rated [ICRA]AAA (Stable)/[ICRA]A1+), Neyveli Uttar Pradesh Power Limited (NUPPL, rated [ICRA]BBB+ (Stable)). Given the healthy credit profile and parentage of these entities, the credit risk related to the receivables from these entities remains low.

Healthy track record of execution - GEPSIPIL has a healthy track record of executing projects related to turbine and generator sets. This, coupled with access to critical technologies and the successful execution of numerous projects, has enabled it to emerge as one of the major players in the industry.

Credit challenges

Muted order inflow to keep revenue and profitability subdued – GEPSIL's order inflow has remained subdued over the last several years, resulting in significant contraction of the order book. The order book contraction can be attributed to the exit of GE from the new coal-build business and low thermal capacity additions. The order inflow from the nuclear segment remains lumpy because of the long tenure of execution. The outstanding order book was Rs. 1,155.3 crore as of March 2023 end, similar to Rs. 1,153 crore at the end of March 2022 which includes nuclear orders from BHEL. The revenue outlook for the company remains subdued due to the elongated execution timeline of the orders. As a result, the profitability is expected to remain under pressure as the fixed costs remain elevated. If GEPSIPIL's nuclear business is sold as part of the global nuclear business sale by the parent, the revenue visibility for the company will moderate significantly. However, the fixed overheads will also come down, allowing the company to post marginal profits, going forward.

Delay in collection of receivables keeps funding requirements elevated - Delays in executing the existing orders and the high retention money 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 collection of receivables in the future.

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

Liquidity position: Adequate

GEPSIPL's liquidity profile is adequate, supported by credit line (board approved limit of Rs. 800 crore) from the GE Group's internal cash pool, undrawn fund-based bank lines (~Rs. 80 crore) and no term loan repayment liability. The funding requirements of the business have increased in the current fiscal on the back of high debtor levels (including retention money) and pressures on profitability owing to the decline in revenue. This has partly been funded through continued borrowings from the GE Group's internal cash pool. As per the management, the cash pool always has sizeable surplus balance available. The average cushion in the cash pool stood at Rs. 305.6 crore in FY2023 (and Rs. 342 crore remained unutilised as on September 30, 2023), while the external fund-based limits of Rs. 80 crore remained unutilised as on March 31, 2023 and as on September 30, 2023.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade over the near term is less likely. The outlook may be revised to Stable if there is a material improvement in the company's order book position and revenue, leading to an improvement in the profitability and credit profile. The release of retention money, which would improve the receivable position and lower the funding requirements, may also lead to a revision in the outlook.

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. Other factors leading to a downgrade include stretching of the working capital cycle and 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. The sale of GEPSIPL's nuclear business to a parent with a weaker credit profile and/or weakening of financial support from the parent may lead to a downgrade. Further, the ratings could be downgraded if the EDF transaction does materialise in a timely manner.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Ultimate parent company: General Electric Company. The ratings are based on implicit support from the ultimate parent, primarily in the form of technological and financial synergies. ICRA expects GE to extend financial support to the company, should there be a need in case of cash flow mismatches
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 (audited)

GEPSIPIL	FY2022	FY2023
Operating income	836.2	614.0
PAT	(531.1)	(152.2)
OPBDIT/OI	-8.0%	-13.6%
PAT/OI	-63.5%	-24.8%
Total outside liabilities/Tangible net worth (times)	6.7	16.8
Total debt/OPBDIT (times)	2.2	5.7
Interest coverage (times)	(1.1)	(1.5)

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 for the past 3 years			
		Type	Amount rated	Amount outstanding	Date & rating	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
			(Rs. crore)	(Rs. crore)	9-Oct-23	6-Jan-23	29-Jul-22	22-Feb-22	1-Feb-21
1	**Non fund-based facilities – LC/BG**	Short-Term/Long-term	2,475.00	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+
2	**Unallocated**	Short-term/Long-term	525.00	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based facilities-LC/BG	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	Non-fund based facilities-LC/BG	NA	NA	NA	2,475.00	[ICRA]BBB+ (Negative)/ [ICRA]A2
NA	Unallocated	NA	NA	NA	525.00	[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

Company Name	GEPSIPIL ownership	Consolidation Approach
NA	NA	NA

Source: GEPSIPIL

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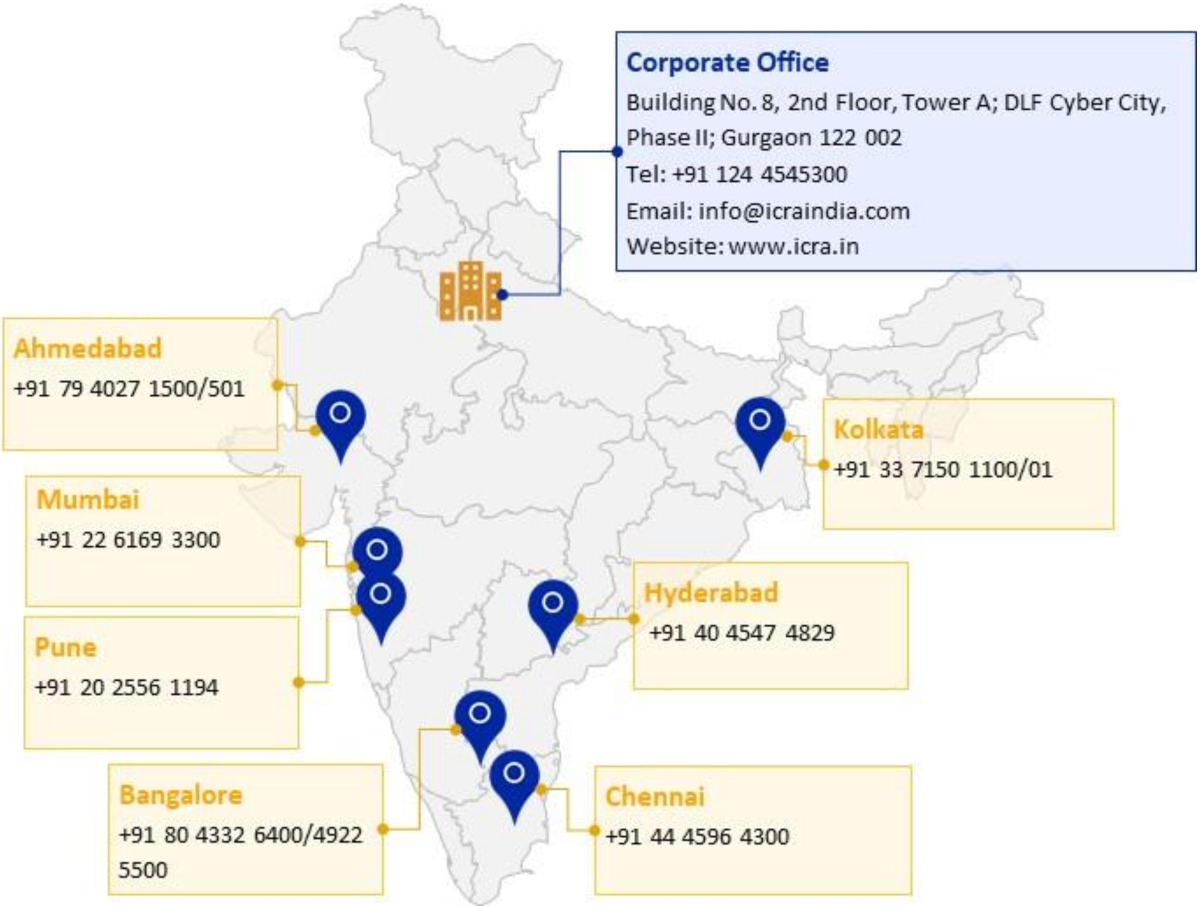

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