

November 22, 2023

## GE Power India Limited (erstwhile Alstom India Limited): Ratings downgraded to [ICRA]BBB/[ICRA]A3+; 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]BBB+(Negative)
Long-term/short-term – Non-fund based – BG/LC	4,450.00	4,450.00	[ICRA]BBB(Negative)/[ICRA]A3+; downgraded from [ICRA]BBB+(Negative)/[ICRA]A2
Unallocated	200.00	200.00	[ICRA]BBB(Negative)/[ICRA]A3+; downgraded from [ICRA]BBB+(Negative)/[ICRA]A2
<b>Total</b>	<b>5,040.00</b>	<b>5,040.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating downgrade factors in the considerable and continuous decline in GE Power India's (GEPIL) revenues, profit margins and cash flow generation owing to significant cost pressures, provisions for accidents and the slow pace of project execution. The company had witnessed significant cost pressures and under-absorption of costs due to hardening of commodity prices and weak order intake in the previous years. The trend continued in H1 FY2023-24 as well for a few projects, resulting in large cost absorptions. The order intake has been slow for the last couple of years as customers deferred projects post-Covid. However, the order intake improved in H1 FY2024. The pace of project execution has also remained slow owing to issues faced by the company, such as contractor's financial health and customer-related hurdles.

GEPIL's profitability witnessed major headwinds owing to fire incidents, first at the flue gas desulphurisation (FGD) installation site at NTPC Limited's (NTPC, rated [ICRA]AAA (Stable)/[ICRA]A1+) Solapur plant in FY2023 and subsequently at NTPC's Sipat plant in Q1 FY2023-24. The fire incidents resulted in provisions of ~Rs. 147 crore, including damage to equipment and expected liquidated damages (LD) that may be levied by NTPC. However, the equipment damage loss may be recovered partly through insurance proceeds. The profitability 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 of up to Rs. 226 crore and the expected release of a substantial sum of retention money provide comfort on liquidity.

While the parent, General Electric Company (GE<sup>1</sup>), 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 working capital debt. However, with the FGD contracts nearing completion, a sizeable amount of retention money is expected to be released, which will bring down the working capital requirement.

<sup>1</sup> rated Baa1(Negative) by Moody's Investors Service

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 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 due to lower order inflow** – New order intake has been decreasing over the last 2-3 years in the aftermath of Covid-related disruptions, import restrictions from China, deferred capex plans by customers and decrease in FGD orders as implementation timelines get pushed back. 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 order inflow has improved in H1 FY2023-24, the pace of execution and impact of commodity price changes will remain a key monitorable. Sizeable planned capacity additions by NTPC Limited in the thermal segment as well as by other CPSUs in hydro energy, including pumped storage hydropower, should provide GEPIL with enhanced opportunities.

**Volatility in profit margins due to input costs; susceptibility to any delays in project execution** – GEPIL's profit margins remain susceptible to 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, the expected release of retention money should bring down the working capital borrowings as well as support the liquidity. While there has been some realisation of retention money in H1 FY2023-24, the overall receivables continue to be elevated.

**Intense competition** – The industry remains highly competitive with established local players and global majors. While the outlook for capacity addition in the thermal and hydro segments has improved, the company's ability to secure orders amid the intense competition in the industry will remain a key monitorable. In addition, these projects have a long gestation period and are prone to timeline delays which results in slower revenue accretion.

## Environmental and Social Risks

**Environmental considerations:** GEPIL operates at multiple project sites at any point of time and therefore the risk of disruptions due to adverse climate is low. In fact, construction entities like GEPIL benefit from the demand for the installation of equipment required by thermal power projects to comply with strict environmental norms (FGDs etc). As construction

entities generate air pollution, entities like GEPIL remain exposed to the risk of temporary bans on operations in cities that are more sensitive to deteriorating air quality.

**Social considerations:** Entities like GEPIL face social risks stemming from the health and safety concerns of workers, which could invite regulatory or legal action, besides reputational harm. GEPIL 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. 160.0 crore as on September 30, 2023, undrawn bank lines (~Rs. 75 crore as on September 30, 2023), access to GE's internal cash pool with sanctioned limits of Rs. 226 crore (Rs 159 crore unutilised as on September 30, 2023) and no term loan repayment obligation. Although GEPIL's funding requirements remain elevated due to the build-up of retention money, the restoration of the overall working capital limits to Rs. 800.0 crore from the sanctioned limits of Rs. 611 crore (Rs. 226 crore of cash pool limits and Rs. 385 crore of external limits) going forward and the expected release of retention money from the completion of the ongoing projects will support the company's liquidity profile.

### 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 GEPIL to demonstrate 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** – GEPIL's rating could be downgraded if there is a sustained decline in revenues and profitability. Moreover, a stretched working capital cycle exerting pressure on the liquidity position, or a deterioration of the credit profile of GE or weakening of linkages with GE could lead to a downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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	For arriving at the ratings, ICRA has considered the consolidated financials of GE Power India Limited. As on March 31, 2023, the company had one wholly owned subsidiary and one JV, which are enlisted in Annexure-II

### About the company

GE Power India Limited (GEPIL) is engaged in the 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)

GEPIL Consolidated	FY2022	FY2023
Operating income (Rs. crore)	2655.0	1825.7
PAT (Rs. crore)	-291.7	-443.6
OPBDIT/OI	-3.1%	-13.2%
PAT/OI	-11.0%	-24.3%
Total outside liabilities/Tangible net worth (times)	4.0	11.3
Total debt/OPBDIT (times)	-4.8	-1.5
Interest coverage (times)	-0.8	-3.2

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Debt includes lease liabilities

**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	Amount outstanding	Date & rating			for the past 3 years					
								Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
			(Rs. crore)	(Rs. crore)	22-Nov-2023	23-Aug-2023	06-Jun-23	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]BBB+ (Negative)	[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]A3+	[ICRA]BBB+ (Negative) / [ICRA]A2	[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]A3+	[ICRA]BBB+ (Negative) / [ICRA]A2	[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]A3+
NA	Unallocated	NA	NA	NA	200.0	[ICRA]BBB (Negative)/[ICRA]A3+

Source: Company

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

Company Name	GEPIL Ownership	Consolidation Approach
GE Power Boilers Services Limited	100%	Full Consolidation
NTPC GE Power Services Private Limited	50%	Equity Method

Source: Company

## ANALYST CONTACTS

**Sabyasachi Majumdar**  
+91 124 4545304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Siddhartha Kaushik**  
+91 124 4545323  
[siddhartha.kaushik@icraindia.com](mailto:siddhartha.kaushik@icraindia.com)

**Neha Garg**  
+91 124 4545391  
[neha.garg@icraindia.com](mailto:neha.garg@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

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



### Branches



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