

December 28, 2017

Alstom Systems India Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Working Capital Limits	76.0	[ICRA]A+(SO) (Stable) assigned
Non-fund Based Limits-LC/BG	300.0	[ICRA]A+(SO) (Stable)/ [ICRA]A1+(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A+(SO) (pronounced ICRA A plus Structured Obligation) to the Rs. 76.0-crore¹ fund based working capital facilities of Alstom Systems India Private Limited. ICRA has also assigned a long-term rating of [ICRA]A+(SO) (pronounced ICRA A plus Structured Obligation) and short-term rating of [ICRA]A1+(SO) (pronounced ICRA A one plus Structured Obligation) to the Rs. 300.0-crore non-fund based facilities of Alstom Systems India Private Limited (ASIPL or the company)². The outlook on the long-term rating is 'Stable'.

An SO rating is specific to the rated issue, its terms and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale

The ratings factor in the credit enhancement to ASIPL in the form of corporate guarantee for its limits by its parent Alstom Holding SA (100% subsidiary of Alstom SA, which is rated Baa2/P-2 with Stable outlook by Moodys). The rating addresses the servicing of the loan to happen as per the terms of the underlying loan and the guarantee arrangement. Further, the rating assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case of a default in payment by the borrower³.

The ratings also factor in the technical and financial support from the Alstom Group and ASIPL's strategic importance to the parent company due to growing importance of Indian operations to Alstom Group. ASIPL is executing the electrification, signaling, telecommunication, and associated works for Bhaupur-Khurja Section (343 km) stretch of the Dedicated Freight Corridor (DFC) project, which is of strategic importance of the Government of India, translating into support available from Dedicated Freight Corridor Corporation of India Limited (DFCCIL)⁴. Moreover the liquidity position of the company is supported by sizeable mobilisation advances, no debt repayment liability and funding support from the parent.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ The rated instrument does not involve a structured payment mechanism.

⁴ Issuer rating of [ICRA]AAA(stable)

The ratings are however constrained by the fact that the company is in early stages of its operations and witnessing considerable delays in the project, resulting in moderation of revenues, weak profitability and negative operating cash flows. ASIPL remains vulnerable to time and cost overrun risks; and risk of delays in payments from DFCCIL. However the time and cost overrun risks are largely mitigated by the time extension and cost escalation clauses in the contract with DFCCIL. ICRA notes the current delay in project deliverables; and consequences along with financial impact, if any, of the same remains to be seen.

Going forward, completion of the project without any major time or cost overruns, improvement in the company's revenue growth and profitability and any changes in the parent's rating will remain the key rating sensitivities.

Rating Outlook: Stable

ICRA believes ASIPL will continue to benefit from the support extended by its parent and steady execution of the project. The outlook may change as per the change in the outlook on the parent's rating. Further, the outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if there is any major delay in project execution which can impact profitability or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit Strengths

- **ASIPL's importance to the parent** – ASIPL has strategic importance for the Alstom Group which is focussed on expanding its footprint in the Indian market in the rail infrastructure space. This is demonstrated by financial and technical support extended by Alstom Group to ASIPL.
- **Strategic importance of the project** – as ASIPL's project is part of Eastern Freight Corridor which is being executed by DFCCIL under the aegis of Ministry of Railway, Government of India. DFC is a project of strategic importance for the GoI and is being closely monitored.
- **Liquidity position** – Despite losses at the operational level, ASIPL's liquidity is supported by sizeable mobilization advances, no debt repayment liability and funding support from the parent.
- **Bank lines backed by Corporate Guarantee** - The credit profile of ASIPL is enhanced by credit enhancement in the form of corporate guarantee for its limits by its parent Alstom Holding SA (100% subsidiary of Alstom SA, rated Baa2/P-2 with Stable outlook by Moodys).

Credit Weakness

- **Delays in project completion** – The project witnessed delays on account of site access issues, which has adversely impacted the revenue generation and resulted in losses at the operational level in FY2017. The delay, currently being contested by ASIPL and sub judice, if materialised could result in financial impact on ASIPL. But the delays have been resolved and the progress is steady.
- **Exposed to time and cost overrun risk** - ASIPL remains vulnerable to time and cost overrun risks, as majority (80-85%) of the work on the project is pending. . However the time and cost overrun risks are largely mitigated by the time extension and cost escalation clauses of the contract with DFCCIL.
- **Delay in payments from DFCCIL** - Payments from DFCCIL have been delayed in the past. Any delays in future payments can accentuate the funding requirements of the business

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

[Approach for rating debt instruments backed by third-party explicit support](#)
[Corporate Credit Rating Methodology](#)

About Alstom SA

Alstom SA, rated Baa2/P-2 with Stable outlook by Moody's, is one of the global leaders in rail transport equipment, service and signaling for urban, suburban, regional and main line passenger and freight transportation. The group operates with almost 32,800 employees with manufacturing facilities in almost all accessible markets and is considered as one of the technological leaders in the industry.

About the Company

Alstom Systems India Private Limited (ASIPL) was setup in 2015 for design, construction, supply, installation, testing and commissioning of electrification, signalling and telecommunication and associated works of Double Track Railways Lines under construction on a Design Build Lump Sum Basis for Bhaupur-Khurja Section (343 Km) of Eastern Dedicated Freight Corridor for Dedicated Freight Corridor Corporation of India Limited. ASIPL has been setup by Alstom SA and its step down subsidiary Alstom Transport India Limited.

Key financial indicators – (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	-	145.9
PAT (Rs. crore)	- 0.5	-4.3
OPBDIT/ OI (%)	-	Negative
RoCE (%)	Negative	Negative
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest Coverage (times)	-	-
NWC/ OI (%)	-	Negative

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

**Rating History for last three years
Table**

S.No	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					December 2017			
1	Non-fund Based Limit-LC/BG	Long Term/ Short Term	300.0		[ICRA]A+(SO) (Stable)/ [ICRA]A1+(SO)	-	-	-
2	Fund Based Working Capital Limits	Long Term	76.0		[ICRA]A+(SO) (Stable)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Working Capital Limits	-	-	-	76.0	[ICRA]A+(SO) (Stable)
NA	Non-fund Based Limit-LC/BG	-	-	-	300.0	[ICRA]A+(SO) (Stable)/ [ICRA]A1+(SO)

Source: Alstom Systems India Private Limited

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About ICRA Limited:

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