

February 18, 2020

GE T&D India Limited (erstwhile Alstom T&D India Limited): Long-term rating downgraded to [ICRA]A+; short-term rating reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working Capital Facilities	1,000.0	1,000.0	[ICRA]A+(Stable); rating downgraded from [ICRA]AA-; outlook revised from Negative
Non-fund based – BG/LC	5,245.0	5,245.0	[ICRA]A+(Stable)/[ICRA]A1+; long-term rating downgraded from [ICRA]AA-, short-term rating reaffirmed at [ICRA]A1+; outlook revised from Negative
Unallocated	755.0	755.0	[[ICRA]A+(Stable)/[ICRA]A1+; long-term rating downgraded from [ICRA]AA-, short-term rating reaffirmed at [ICRA]A1+; outlook revised from Negative
Total	7,000.0	7,000.0	

*Instrument details are provided in Annexure-1

Material Event

GE T&D India Limited (GETDIL; erstwhile Alstom T&D India Limited) announced its Q3 FY2020 results on February 7, 2020. The company reported an operating income (OI) of Rs. 939.8 crore and net loss of Rs. 37.7 crore in Q3 FY2020 against an OI of Rs. 1,167.8 crore and net profit of Rs. 53.1 crore in Q3 FY2019. Also, in 9M FY2020, GETDIL reported an OI of Rs. 2,494.5 crore and a net loss of Rs. 115.4 crore as against an OI of Rs. 3,323.5 crore and net profit of Rs. 186.6 crore in 9M FY2019.

Impact of the Material Event

ICRA downgraded the long-term rating of GETDIL to [ICRA]A+ from [ICRA]AA- and reaffirmed the short-term rating at [ICRA]A1+. The rating outlook was revised to Stable from Negative.

Rationale

The rating downgrade factors in the considerably more-than-anticipated decline in GETDIL's revenues, profitability and coverage metrics in the current fiscal, as well as elongated working capital cycle, that is likely to keep cash flow from operations negative in the near term. Order inflow for the company in 9M FY2020 has been lower than the corresponding period in the previous fiscal, because of intense competition that has led to moderation in revenue visibility. Also, an increase in order book concentration towards private sector clients and state utilities, as against Power Grid Corporation of India Limited (PGCIL) in the past, exposes GETDIL to greater execution and counterparty risks and a likely increase in working capital requirements.

The company's revenues have been lower in the current fiscal on the back of slower execution of some ongoing projects due to challenging industry dynamics, limited revenue contribution from the ongoing high voltage direct current (HVDC) project and reduced order inflow. This coupled with lower absorption of fixed overheads, inventory write-offs (related to the Naini manufacturing facility) and continued provisioning towards diminution in value of some investments of the employee provident fund trust, have resulted in a considerable decline in its operating margins in 9M FY2020. Despite some reduction in Q3 FY2020, GETDIL's debt levels remain high due to high debtors (including retention money) and lower cash generation. Also, given the high level of debtors outstanding for greater than six months, any incremental provisioning against the same can impact the profitability going forward.

However, the ratings draw comfort from GETDIL's position as one of the major players in the power transmission equipment industry. Moreover, its established operational track record, extensive experience of its parent and management, wide product/service mix, and strong technical capabilities support the ratings. The company also derives technological synergies and financial flexibility from its strong parent – General Electric Company (GE)¹. These strengths enable GETDIL to sustain a sizeable unexecuted order book, which provides revenue visibility for the medium term. Notwithstanding the reducing share of orders from PGCIL in past two years, ICRA notes that GETDIL's clientele is well diversified and includes both public and private sector customers.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that GETDIL will continue to benefit from its established position in the industry and unexecuted order book, which provides revenue visibility.

Key rating drivers

Credit strengths

Established track record – GETDIL has an operational track record of several decades in the power transmission equipment industry. This, coupled with access to critical technologies and successful execution of numerous projects, has enabled it to emerge as one of the major players in the industry. Its business operations in India are divided into four heads – products, solutions, automation and services. The company is also involved in manufacturing a wide array of equipment, which supports its revenues and profitability.

Benefits from strong parentage – GETDIL derives technical synergies and financial flexibility from its strong parentage (ultimate parent – GE). Additionally, being a part of the GE Group augurs well while bidding for fresh orders, given the access to technology and clientele because of the GE Group's global presence.

Sizeable unexecuted order book – Sizeable unexecuted order book of around Rs. 5,957² crore as on December 31, 2019, provides revenue visibility for the medium term. While order inflow in the current fiscal has been lower at around Rs. 2,362 crore in 9M FY2020 against Rs. 2,777 crore in the corresponding previous, it has been higher in Q3 FY2020 than the previous quarter. Steady execution of the unexecuted order book is likely to drive the recovery in profit margins.

¹ rated Baa1 with Stable outlook by Moody's Investors Service

² includes a non-moving order with pending work of around Rs. 202 crore

Diverse client base – Given its established operational track record in the industry, GETDIL has successfully serviced a large client base over the years. Moreover, its well-diversified client base includes PGCIL, private sector clients and state utilities.

Credit challenges

Intense competition – The stiff competition in power transmission equipment space characterised by the presence of a number of large Indian companies is further accentuated by the presence of global majors through joint ventures and threat from Chinese/Korean equipment manufacturers.

Elevated funding requirements lead to increased reliance on debt and moderation in coverage indicators – Despite some reduction in Q3 FY2020, debt levels remain high (~Rs. 367 crore as on December 31, 2019 against Rs. 81 crore as on March 31, 2019) in the current fiscal on the back of high debtor levels (including retention money) and decline in cash generation. Higher debt levels coupled with decline in profitability has resulted in moderation in debt protection metrics estimated for FY2020 with only limited recovery towards H2 FY2021. Also, given the high level of debtors outstanding for more than six months, any incremental provisioning against the same can impact the profitability going forward.

Revenue moderation and pressures on profit margins – Given the challenges faced in execution, GETDIL's revenues remain susceptible to slowdown in execution of the ongoing projects. This coupled with lower contribution from an ongoing HVDC project and lower order inflow has led to considerable decline in revenues in the current fiscal (Rs. 2,494.5 crore in 9M FY2020 against Rs. 3,323.5 crore in 9M FY2019). This coupled with lower absorption of fixed overheads, inventory write-offs (related to Naini manufacturing facility) and continued provisioning towards diminution in value of some investments of the employee provident fund trust, have resulted in a considerable decline in operating margins in Q3 and 9M FY2020. Also, sizeable exceptional cost (~Rs. 53.6 crore) booked in Q2 FY2020 towards impairment of carrying value of property, plant and equipment at one of the facilities has further exerted pressures on net profit during this period. However, in Q3 FY2020, the company has also entered into business transfer agreement (of ~ Rs. 25 crore) for this facility. Implementation of the same post fulfilment of some conditions, is likely to result in a gain for the company, as and when that happens. Given the challenging industry dynamics and intense competition, revenues and profitability are likely to remain under pressure in the near term.

Change in order mix may result in higher working capital intensity – Change in order book mix in terms of increased share of private sector clients and state utilities and reducing share of PGCIL are likely to accentuate the challenges pertaining to project execution as well as elevate the working capital requirements of the business.

Liquidity Position: Adequate

GETDIL's liquidity position is **adequate**. While fund flow from operations are likely to remain positive in FY2020, cash flow from operation (CFO) will remain negative because of an increase in working capital intensity. While funding requirements have led to increased reliance on external debt in the current fiscal, GETDIL liquidity position continues to be supported by free cash balances of Rs. 33.6 crore as on December 31, 2019, cushion available in the form of undrawn working capital limits and customer advances. Nevertheless, reduction in debtor levels and higher internal accrual generation on the back of recovery in profit margins over the next few quarters, will be the key in driving the future liquidity position.

Rating sensitivities

Positive triggers – GETDIL’s ratings could be upgraded if the company demonstrates healthy growth in its revenues and improvement in profit margins; and reduction in debtor levels, on a sustained basis.

Negative triggers – GETDIL’s ratings could be downgraded if there is considerable decline in revenues and profit margins as well as weaker revenue visibility owing to lower order inflow. Stretching of the working capital cycle and greater reliance on debt and weakening of debt protection metrics, on a sustained basis could also lead to a ratings downgrade. Moreover, GETDIL’s ratings would be sensitive to a change in the credit profile of the parent – GE.

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	Standalone

About the company

GETDIL manufactures power transmission equipment in India. The company manufactures a wide range of products that include power transformers, circuit breakers, gas insulated switchgears, air insulated switchgears, instrument transformers, protection relays and power system automation equipment. GE’s shareholding (through subsidiaries) in the company stood at 75% as on December 31, 2019.

In FY2019, GETDIL reported a net profit of Rs. 212.7 crore on an operating income (OI) of Rs. 4,266.4 crore compared with a net profit of Rs. 208.8 crore on an OI of Rs. 4,370.8 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	4,370.8	4,266.4
PAT (Rs. crore)	208.8	212.7
OPBDIT/OI (%)	7.2%	11.5%
RoCE (%)	30.4%	30.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	1.9
Total Debt/OPBDIT (times)	0.3	0.2
Interest Coverage (times)	3.0	5.8
DSCR	3.9	4.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instru- ment	Type	Amount Rated	Amount Outstand- ing	Current Rating (FY2020)		Rating History for the past 3 years							
				18-Feb- 2020	14- Nov- 2019	FY2019		FY2018		FY2 017	FY2016		
						Rating	Rating	27- Nov- 2018	2-Jul- 2018	18- May- 2017	12- Apr- 2017	1- Mar- 2016	30- Dec- 2015
1	Fund- based Limits	Long Term	1,00 0.0	-	[ICRA]A + (Stable)	[ICRA] AA- (Nega- tive)	[ICRA] AA- (Stabl e)	[ICRA] AA- (Stabl e)	[ICRA] AA (Stabl e)	[ICRA] AA (Stabl e)	-	[ICRA] AA (Stabl e)	[ICRA] AA (Stabl e)
2	Non- fund Based Limits - LC/BG	Long Term/ Short Term	5,24 5.0	-	[ICRA]A + (Stable) /[ICRA] A1+	[ICRA] AA- (Nega- tive) /[ICRA] A1+	[ICRA] AA- (Stabl e) /[ICRA] A1+	[ICRA] AA- (Stabl e) /[ICRA] A1+	[ICRA] AA (Stabl e) /[ICRA] A1+	[ICRA] AA (Stabl e) /[ICRA] A1+	-	[ICRA] AA (Stabl e) /[ICRA] A1+	[ICRA] AA (Stabl e) /[ICRA] A1+
3	Unallo- cated	Long Term/ Short Term	755. 0	-	[ICRA]A + (Stable) /[ICRA] A1+	[ICRA] AA- (Nega- tive) /[ICRA] A1+	[ICRA] AA- (Stabl e) /[ICRA] A1+	[ICRA] AA- (Stabl e) /[ICRA] A1+	[ICRA] AA (Stabl e) /[ICRA] A1+	[ICRA] AA (Stabl e) /[ICRA] A1+	-	[ICRA] AA (Stabl e) /[ICRA] A1+	-

Amount in Rs. crore

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits	-	-	-	1,000.0	[ICRA]A+ (Stable)
NA	Non-fund Based Limits - LC/BG	-	-	-	5,245.0	[ICRA]A+ (Stable) / [ICRA]A1+
NA	Unallocated	-	-	-	755.0	[ICRA]A+ (Stable) / [ICRA]A1+

Source: GE T&D India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
-	-	-

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