

January 11, 2021

## Voith Hydro Private Limited: Ratings reaffirmed at [ICRA]A+ (CE) (Negative)/[ICRA]A1 (CE)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund Based Limits	610.00	610.00	[ICRA]A+ (CE) (Negative)/[ICRA]A1 (CE); reaffirmed
<b>Total</b>	<b>610.00</b>	<b>610.00</b>	

\*Instrument details are provided in Annexure-1

### Rating Without Explicit Credit Enhancement

[ICRA]A/[ICRA]A2+

*Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement*

### Rationale

The ratings for the bank facilities of Voith Hydro Private Limited (VHPL) are principally based on the corporate guarantees provided by one of its stakeholders, Voith GmbH & Co. KGaA (rated: Moody's long-term Issuer rating of Baa3 with Negative outlook), for the bank lines of Rs. 610.00 crore. Further, the rating reflects that the foreign parent's credit quality would continue to benefit from good business diversification, strong market positions and technological know-how, strong liquidity profile and substantial financial flexibility and conservative financial policy. The Negative outlook on this rating reflects Moody's outlook on the rating of the guarantor, Voith GmbH & Co. KGaA.

### Adequacy of credit enhancement

To arrive at the ratings, ICRA has assessed the attributes of the two separate guarantees (for two lenders) issued by Voith GmbH & Co. KGaA in favour of the Rs. 300-crore bank limit and another bank limit of Rs. 310 crore. The guarantee for the Rs. 300-crore bank limit is legally enforceable, irrevocable and unconditional, and covers the entire amount and tenor of the rated instrument. The guarantee for the Rs. 310-crore bank limit covers the entire amount and tenor of the rated instrument. However, none of the guarantees have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has arrived at the ratings of [ICRA]A+ (CE) (Negative)/[ICRA]A1(CE) for the said instrument against the unsupported rating of [ICRA]A. If the rating of the guarantor, Voith GmbH & Co. KGaA, undergoes a change in future, the same would have a bearing on the ratings of the aforesaid instrument as well. The rating of this instrument may undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

### Salient covenants of the rated facility

- » *The guarantor is liable to pay all amounts due by the borrower under the facilities*
- » *The guarantees will not be affected by the winding up or insolvency of the borrower*
- » *The guarantees are valid for the entire tenure of the rated facilities*

## Key rating drivers and their description

### Credit strengths

**Explicit support through corporate guarantees from Voith GmbH & Co. KGaA** – The rating derives comfort from the guarantees issued by Voith GmbH & Co. KGaA in favour of bank facilities of Rs. 610 crore. The guarantees cover the entire amount due under the rated facilities along with the tenure of the rated facilities.

**Strong parentage** – VHPL belongs to the Voith Group, which is a globally renowned player in the five essential markets of energy, oil and gas, paper, raw materials, and transport and automotive. VHPL benefits from its parentage in terms of technical and financial support. Additionally, being part of the Voith Group provides leverage while bidding for fresh orders.

**Healthy order book** – VHPL has expertise in developing, designing, manufacturing, procuring, erecting, installing and maintaining all kinds of hydro power projects of capacities ranging 1–250 MW and above. Its high technical competence, cost competitiveness, association with a strong Group and established track record have resulted in a healthy order book position at the end of October 2020. The pending order book of the company is expected to be executed between three years and four years, offering healthy revenue visibility for the medium term.

**Comfortable capital structure** – VHPL's capital structure remained comfortable at the end of FY2020. The comfortable capital structure was primarily a result of zero external debt and adequate net worth position. The debt comprised only short-term loans (availed under the cash pool arrangement with the Group's Indian entities).

**Price escalation clauses in contracts** – The presence of price-escalation clause in most of the contracts mitigates the vulnerability of the company's margins to adverse fluctuations in the prices of key raw material to a large extent.

### Credit challenges

**Exposure to intense competition** – The company faces intense competition from the large-sized incumbent domestic and global players in the hydro energy space, forcing it to bid aggressively for new orders, which puts pressure on its margins.

**Exposure to forex movement** – VHPL derives most of its revenues from the overseas market. This may impact the profitability of the overseas projects in case of adverse movement in forex. Nevertheless, the company hedges most of its exposure in foreign currency. Forex fluctuations losses impacted the net profitability in FY2020; however, this mainly comprised mark-to-market losses on forex hedging as on March 31, 2020.

## Liquidity position: Strong

The liquidity position of the guarantor, Voith GmbH & Co. KGaA is **strong** with EUR 582 million cash and cash equivalents on its balance sheet as on September 30, 2020. This strong cash balance is further supported by an undrawn EUR 550-million multicurrency syndicated credit facility, which was renewed during the financial year and matures in April 2025. Voith GmbH & Co. KGaA's liquidity is also supported by certain bilateral committed credit facilities. These sources are sufficient to cover liquidity needs, including any intra-year movements of working capital and short-term debt maturities. The information on the liquidity position is based on the annual report 2020 of Voith GmbH & Co. KGaA.

## Rating sensitivities

**Positive triggers** – Given the Negative outlook, a rating upgrade is unlikely in near term, given the challenging operating environment at present. However, the outlook could be revised to Stable in case of sustained improvement in the standalone performance of the company, leading to an improvement in its credit metrics and/or sustained improvement in the credit profile of the foreign parent, Voith GmbH & Co. KGaA.

**Negative triggers** – The rating would remain sensitive to change in the credit profile of the foreign parent, Voith GmbH & Co. KGaA, and linkages with the borrower. Further, negative pressure on the rating could arise in case of a significant decline in operating income (OI) or profitability of VHPL. Stretch in the working capital cycle of VHPL could also exert negative pressure on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a>
Parent/Group Support	Parent/Group company: Voith GmbH & Co. KGaA The assigned ratings are based on the corporate guarantees extended by Voith GmbH & Co. KGaA
Consolidation/Standalone	The ratings are based on standalone financial profile of VHPL

## About the company

VHPL designs, procures and installs electromechanical equipment comprising turbine generator sets required in the hydropower generation segment. The company also undertakes the renovation of hydropower projects. In FY2010, it established its only manufacturing facility at Vadodara (Gujarat). It was incorporated as a wholly-owned subsidiary in July 2002 in India by Voith Hydro Holding GmbH & Co. KG, a German-based hydropower equipment and related services provider. A 99.9% share in VHPL is owned by VH Auslandsbeteiligungen GmbH, Germany, in which a 100% share is held by Voith Hydro Holding GmbH & Co. KG, Germany. In turn, a 65% shareholding in Voith Hydro Holding GmbH & Co. KG, Germany, is held by Voith GmbH & Co. KGaA (the ultimate parent) and a 35% share is held by Siemens AG.

## Key financial indicators - VHPL

	<b>FY2019</b>	<b>FY2020</b>
	<b>Audited</b>	<b>Audited</b>
Operating Income (Rs. crore)	459.64	517.97
PAT (Rs. crore)	18.24	-1.49
OPBDIT/OI (%)	10.98%	9.38%
PAT/OI (%)	3.97%	-0.29%
Total Outside Liabilities/Tangible Net Worth (times)	10.04	10.86
Total Debt/OPBDIT (times)	3.79	5.38
Interest Coverage (times)	2.57	1.96

Source: VHPL's audited financial reports

## About the guarantor

Voith GmbH & Co. KGaA (erstwhile: Voith GmbH), based in Heidenheim, Germany, is the operative head organisation and parent company of the Voith Group. With its broad portfolio of systems, products and services, the Group at present serves five essential markets—energy, oil and gas, paper, raw materials, and transport and automotive. The Voith Group operates in over 60 countries worldwide and employs over 20,500 people. The Group reported an OI of around EUR 4.37 billion during the fiscal year that ended in September 2020. Currently, Voith Paper, Voith Turbo, Voith Hydro and Voith Digital ventures are the four divisions of the Voith Group of Companies. The Group is privately owned by descendants of the Voith family but has been led by non-family senior managers for decades.

## Key financial indicators (consolidated) - Voith GmbH & Co. KGaA

	<b>Oct 2018-Sep 2019</b>	<b>Oct 2019-Sep 2020</b>
	<b>Audited</b>	<b>Audited</b>
Operating Income (EUR million)	4499.98	4369.84
PAT (EUR million)	72.45	6.34
OPBDIT/OI (%)	3.99%	3.53%
PAT/OI (%)	1.61%	0.15%
Total Outside Liabilities/Tangible Net Worth (times)	2.64	3.59
Total Debt/OPBDIT (times)	2.22	5.89
Interest Coverage (times)	4.64	5.48

Source: Voith GmbH & Co. KGaA annual reports (fiscal year: October-September)

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2021	FY2020	FY2019
					11-January-2021	4-May-2020	20-January-2020	27-July-2018
1	Non-Fund Based Limits	Long Term (CE)/ Short Term (CE)	610.00	-	[ICRA]A+(CE) (Negative)/A1(CE)	[ICRA]A+(CE) (Negative)/A1(CE)	[ICRA]A+(CE) (Stable)/A1(CE)	[ICRA]A+(SO) (Stable)/A1(SO)

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-Fund Based Limits	-	-	-	610.00	[ICRA]A+(CE) (Negative)/A1(CE)

Source: VHPL

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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