

December 28, 2017

## Alstom Transport India Limited

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Non-fund based/ Fund based- Working Capital Facilities	820.0 (earlier 490.0)	[ICRA]A+(SO) (Stable)/[ICRA]A1+(SO) Reaffirmed
Non-fund Based Limits – LC/BG	890.0 (earlier 760.0)	[ICRA]A+(SO) (Stable) reaffirmed

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+(SO) (pronounced ICRA A plus Structured Obligation) for an enhanced amount of Rs. 890.0-crore (earlier Rs. 760.0-crore) non-fund based bank facilities of Alstom Transport India Limited. ICRA has also reaffirmed the 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) for an enhanced amount of Rs. 820-crore<sup>1</sup> (earlier Rs. 490.0-crore) fund based and non-fund based facilities bank facilities of Alstom Transport India Limited (ATIL or the company)<sup>2</sup>. 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 credit profile of ATIL is enhanced by corporate guarantee for its limits by its parent Alstom Holding SA (100% subsidiary of Alstom SA which is rated Baa2/P-2 with a 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 borrower<sup>3</sup>.

The rating action also factors in the healthy revenue growth registered by the company in FY2017 on the back of steady execution of majority of the projects in hand; and ATIL's strategic importance to its parent - Alstom Group, which has continued to extend financial and technical support to the company. Regular equity infusion by the parent (During FY2017, Alstom Group infused ~Rs 660.0 crore equity in ATIL), no debt repayment liability and absence of any major debt funded capex plans over the short to medium term have supported ATIL's liquidity position, despite losses at the operating and net level. Moreover the company has a healthy order backlog of Rs 5,622 crore as on November 2017 which provides revenue visibility over the medium term. This includes rolling stock and associated infrastructure products/services for key metro rail projects in Chennai, Lucknow and Kochi. Moreover the demand outlook for rail infrastructure in India is likely to remain positive driven by the government's focus on developing more metro rail projects and railways modernization projects, which provides future business visibility for ATIL.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> The rated instrument does not involve a structured payment mechanism.

However the ratings are constrained by continued losses and negative cash flow for the company in FY2017 on the back of higher overheads in early stages of various projects execution, delays in execution of some projects, building of risk contingencies and higher manpower costs. The working capital intensity has also increased on the back of higher receivable days and work-in-progress inventory. Moreover intense competition from other established industry participants limits ATIL's pricing flexibility and can impact future order inflow. However the company is likely to continue to benefit from its strong parentage, technical and execution expertise and diverse product/service offering.

Going forward, steady execution of the pending order book, addition of new orders, improvement in profit margins of the company and any changes in the parent's rating will remain key rating sensitivities.

### **Rating Outlook: Stable**

ICRA believes ATIL will continue to benefit from the support extended by its parent, sizeable order backlog and favorable future business outlook of the industry. The outlook may change as per the changes 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 parent support is weaker than what is anticipated, 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**

- **Strategic importance to the parent** – ATIL has strategic importance for the Alstom Group which is focussed on expanding its footprint in the rail infrastructure space in India. This is demonstrated by continued financial and technical support extended by Alstom Group to ATIL. Moreover ATIL is also well positioned to service the requirements of other international Alstom Group companies.
- **Sizeable order backlog provides revenue visibility** – ATIL has a sizeable pending order book of around Rs. 5,622 crore as on November 2017, which provides revenue visibility over the medium term, as highlighted by Order book/Operating Income ratio of 4.8 times based on FY2017's operating income). This also includes rolling stock (for Chennai, Lucknow and Kochi projects) and associated infrastructure systems/equipment/services (for Chennai, Lucknow, Delhi NCR, Jaipur and Kochi projects) for key metro rail projects being developed in India.
- **Liquidity position** – Despite losses at the operational and net level, ATIL's liquidity is supported by regular equity infusion by the parent, no debt repayment liability and absence of any major debt funded capex plans over the medium term.
- **Favourable demand outlook** - The demand outlook for rail infrastructure in India is likely to remain favourable driven by the government's focus on developing more metro rail projects and railways modernization projects, which provides future business visibility for industry participants including ATIL.
- **Bank lines backed by Corporate Guarantee from the parent** - The credit profile of ATIL 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

- **ATIL has remained loss making** - ATIL's operations continue to remain loss making due to high level of overheads in initial stages of operations, delays in execution of some projects, building of risk contingencies and higher manpower costs. This has continued to result in negative cash flow generation for the company in FY2017.
- **Intense competition** – The industry is highly competitive and marked by the presence of numerous established players like Hyundai-Rotem Company, Bombardier Transportation, CSR Nanjing Puzhen Rolling Stock Co. Limited and BEML Limited. This intensifies competition and limits the pricing flexibility of the industry participants including ATIL. However, ATIL benefits to an extent on account of its strong parentage, technical and execution expertise and diverse and integrated product/service offering.
- **Increase in working capital intensity** – The company's working capital intensity has also increased on the back of increase in receivable days as well as higher work-in-progress due to delays in some of the ongoing projects.

**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 signalling 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 Transport India Limited (ATIL) was setup in 2011 to manufacture rolling stock for the Indian metro market. The company is wholly owned subsidiary of Alstom Transport Holding BV, Netherlands and has its manufacturing facility located in SriCity, Andhra Pradesh and Coimbatore, Tamil Nadu. ATIL has an established presence in the transport segment with the support of Alstom Group.

### Key financial indicators – (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	739.5	1178.3
PAT (Rs. crore)	-237.6	-267.4
OPBDIT/ OI (%)	Negative	Negative
RoCE (%)	Negative	Negative
Total Debt/ TNW (times)	1.4	0.3
Total Debt/ OPBDIT (times)	Negative	Negative
Interest Coverage (times)	Negative	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	September 2016	March 2015	January 2014
1	Non-fund based/ Fund based- Working Capital Facilities	Long Term/ Short Term	820.0		[ICRA]A+ (SO) (Stable)/ [ICRA]A1+(SO)	[ICRA]A+ (SO)(Stable)/ [ICRA]A1+ (SO)		
2	Non-fund based – LC/BG	Long Term	890.0		[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO)(Stable)	[ICRA]A- (SO) (Stable)/ [ICRA] BBB (Stable)	[ICRA]A- (SO) (Stable)/ [ICRA]BBB+(SO) (Stable)/ [ICRA]BBB (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](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
NA	Non-fund based/ Fund based- Working Capital Facilities	-	-	-	820.0	[ICRA]A+(SO) (Stable)/ [ICRA]A1+(SO)
NA	Non-fund based – LC/BG	-	-	-	890.0	[ICRA]A+(SO) (Stable)

Source: Alstom Transport India Limited

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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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