

## Voith Hydro Private Limited

July 27, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund Based Limits	200.00	300.00	[ICRA]A+(SO) (Stable)/A1 (SO); long-term rating upgraded from [ICRA]A (SO) (Stable); short-term rating reaffirmed
<b>Total</b>	<b>200.00</b>	<b>300.00</b>	

### Rating action

ICRA has revised the long-term rating to [ICRA]A+(SO) (pronounced ICRA A plus structured obligation) from [ICRA]A (SO) (pronounced ICRA A structured obligation), and also reaffirmed the short-term rating at [ICRA]A1(SO) (pronounced ICRA A one structured obligation) on the earlier assigned Rs. 200-crore<sup>1</sup> Line of Credit of Voith Hydro Private Limited (VHPL). Moreover, ICRA has assigned the long-term rating of [ICRA]A+(SO) (pronounced ICRA A plus structured obligation) and the short-term rating of [ICRA]A1(SO) (pronounced ICRA A one structured obligation) to the additional limit of Rs. 100 crore of VHPL. 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 of the standalone credit quality of the issuers concerned.

### Rationale

The rating is based on unconditional and irrevocable guarantees provided by Voith GmbH & Co. KGaA for the Rs. 300-crore bank facilities of VHPL and an undertaking from the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantees by the beneficiary.

The ratings upgrade positively factors in Moody's rating upgrade of Germany-based diversified engineering group – Voith GmbH & Co. KGaA – to long-term Issuer rating of Baa3. The outlook is stable.

Voith GmbH & Co. KGaA's rating upgrade was primarily triggered by a 5% revenue growth at Voith Paper business division, a 40% increase in profit from operations and a 24% surge in the division's order intake. The rating upgrade to investment grade further acknowledges the successful completion of the restructuring of Voith Paper division, the most important business division of the family-owned engineering group. The rating action was also supported by the EUR 1.15 billion cash inflow from the sale of Voith GmbH's 25% stake in robotic systems manufacturer KUKA AG to Midea in January 2017, which enabled Voith GmbH to materially reduce its reported financial debt throughout the year to just EUR 634 million and added flexibility to grow its business further.

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

## Outlook: Stable

The outlook on the ratings of VHPL is Stable as Moody's has assigned a Stable outlook on the business of Voith GmbH & Co. KGaA driven by its expectation that the Germany-based diversified engineering group will be able to further enhance the profitability in its core businesses, leading to the Moody's-adjusted EBITA margin stabilising at around 6%, Moody's-adjusted retained cash flow coverage metrics at around 40% of net debt, and consistently positive free cash flow leading to a further gradual net debt reduction.

## Key rating drivers

### Credit strength

**Corporate guarantee extended by the parent for full bank lines** – The credit profile of VHPL is strengthened by the unconditional and irrevocable corporate guarantees extended by Voith GmbH & Co. KGaA for VHPL's bank lines.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Approach for rating debt instruments backed by third party explicit support](#)

## About the company

Voith Hydro Pvt Ltd. (VHPL) primarily 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, the company 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. 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.

## Guarantor profile

Voith GmbH & Co. KGaA (erstwhile: Voith GmbH), based in Heidenheim, Germany, is the operative management holding company of the Voith Group. With its broad portfolio of systems, products and services, this company/Group at present serves four essential markets – energy, paper, oil and gas, and raw materials. The Voith Group operates in over 60 countries worldwide. The Group reported operating income of over EUR 4.4 billion during the fiscal year ending September 2017. Currently, Voith Paper, Voith Turbo, Voith Hydro and Voith Digital Solutions are the four divisions of the Voith Group of Companies. In each division, legally independent head organisations oversee the activities of the division's subsidiaries. The Group recently ventured into digital solutions business, which at present is in the stage of being build up. The Voith Group sold its industrial services division in 2016.

## Key Financial Indicators (Audited) (Voith GmbH & Co. KGaA)

	Oct 2015-Sep 2016	Oct 2016-Sep 2017
Operating Income (million Euros)	4435.1	4420.3
PAT (million Euros)	89.4	600.1
OPBDIT/OI (%)	6.6%	5.3%
RoCE (%)	10.8%	36.7%
Total Debt/TNW (times)	1.7	0.5
Total Debt/OPBDIT (times)	4.6	2.7
Interest Coverage (times)	3.3	3.0
NWC/OI (%)	-7.5%	-8.3%

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

**Any other information: None**

## Rating history for last three years

Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on FY2018 end (Rs. crore)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2016	Date & Rating in FY2015
				July 2018	May 2017	Mar 2016	Aug 2014
Non-Fund Based Limits	Long Term (SO)/ Short Term (SO)	300.00	-	[ICRA]A+(SO) (Stable)/A1(SO)	[ICRA]A(SO) (Stable)/A1 (SO); Reaffirmed	[ICRA]A(SO) (Stable)/A1 (SO); Downgraded	[ICRA]AA-(SO) (Stable)/A1+(SO); Reaffirmed

## 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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-Fund Based Limits	-	-	-	300.00	[ICRA]A+(SO) (Stable)/A1(SO) Source: VHPL

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## About ICRA Limited:

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