November 18, 2021 (Revised)

GE Power India Limited (erstwhile Alstom India Limited): Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	15.00	390.00	[ICRA]A+ (Negative) reaffirmed/assigned
Non-fund Based Limits – LC/BG	3700.00	4450.00	[ICRA]A+ (Negative) /[ICRA]A1 reaffirmed/assigned
Unallocated	285.00	200.00	[ICRA]A+ (Negative) /[ICRA]A1 reaffirmed
Total	**4000.00**	**5040.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation on the bank lines of GE Power India Limited (GEPIL) takes into account the company's improved performance in Q2,FY 2022, after its Q1,FY 2022 performance. In Q1, FY 2022, the company had incurred losses attributable to the cost overrun in National Hydroelectric Power Corporation Limited's (NHPC) Subansiri project, wherein GEPIL is a contractor, along with hardening of commodity prices, amid the Covid-19 pandemic-related disruptions. The rating also draws comfort from GEPIL's established position among the major players in thermal and hydro power plant equipment and services industry in India, supported by technological and financial benefits derived from its strong parentage, General Electric Company (GE[1]), and its strong technical/execution capabilities. Notwithstanding the lower order inflow in the current fiscal, the company's unexecuted order book provides revenue visibility for the medium term. However, timely execution of the same within the budgeted costs will be crucial for sustaining the profit margins. Moreover, the company's revenue stream remains diversified, given the wide product/service base offered and contribution from international orders (primarily from GE Group companies).

The company's profitability is vulnerable to cost escalations and any delay in execution of its projects. Also, the working capital borrowings are likely to remain high which will keep the coverage indicators under pressure. Furthermore, the demand outlook for power equipment manufacturers remains subdued, given the limited fresh capacity additions in the thermal and hydro power industry. Future order inflows in the emission control systems segment [primarily flue gas desulphurisation (FGD) orders] are also likely to be deferred to some extent given the relaxation in timelines, in light of the adverse impact of the pandemic, supply chain challenges and financing challenges faced by the thermal power generation sector. Further GEPIL's profit margins remain susceptible to challenges in timely execution of orders and hardening of key raw material prices and bought out components, given the relatively long project-execution cycle and fixed-price nature of some contracts.

The continued Negative outlook on GEPIL's rating reflects the subdued demand outlook due to deferment of projects, and elevated working capital borrowings which will keep the coverage indicators under pressure.

[1] *rated Baa1(Negative) by Moody's Investors Service*

Key rating drivers and their description

Credit strengths

Established operational track record in the power equipment industry – GEPIL is one of the major players in the power equipment industry with an operational track record of several decades. It manufactures/supplies critical equipment including boilers, emission control equipment/systems, etc. for power plants (thermal and hydro) and provides associated services.

Diversified revenue stream: The revenues of the company are well diversified with wide range of products and services; this coupled with contribution from international orders results in further revenue stream diversification.

Benefits of strong parentage – GEPIL benefits from its parentage (ultimate parent: GE) in terms of technical and financial support. Additionally, being part of the GE Group provides access to orders from the GE Group companies globally.

Sizeable unexecuted order book provides revenue visibility – Notwithstanding the lower order inflow in the current fiscal, the company's unexecuted order book (~Rs. 4470 crore as of November 2021) provides revenue visibility for the medium term. Emission control systems (ECS; primarily FGD orders) segment accounts for around half of this order backlog and steady order execution is expected to drive the company's revenue growth. However, with future equipment order inflow from fresh capacity addition in thermal and hydro power plants equipment likely to remain subdued, GEPIL's ability to secure fresh orders in the ECS segment and power services (related to equipment retrofitment/replacement demand, other ancillary services) will be key for sustaining the order book position.

Credit challenges

Intense competition and subdued demand outlook – The industry remains highly competitive with established local players and global majors. The subdued demand outlook for the industry, given the limited fresh capacity addition in thermal and hydro power plants, adds to the woes.

Elevated funding requirements – GEPIL's funding requirements have increased considerably in the recent quarters on the back of increase in debtor levels (largely retention money build-up) as per the terms of some FGD orders, which are being executed by the company. Moreover, the reliance on debt is likely to continue over the medium term due to the inherently high funding requirements in the initial years of execution, of the orders being executed.

Volatility in profit margins; susceptibility to any delays in project execution –GEPIL's profit margins remain susceptible to challenges in timely execution of orders and volatility in prices of key raw materials and bought out components, given the relatively long project execution cycle and fixed-price nature of some contracts.

Liquidity position: Adequate

GEPIL liquidity position is **adequate**, supported by cash balances (~Rs. 175 crore as on September, 2021), undrawn bank lines (Rs. 140 crore), access to the GE Group's internal cash pool and no term loan repayment liability. However, the company has utilised substantial portion of its cash pool, over the past few quarters due to elevated funding requirements in light of the high retention percentage, mainly in the FGD portfolio.

Rating sensitivities

Positive factors - The outlook could be revised to stable if GEPIL demonstrates strong revenue growth and improvement in profit margins on a sustained basis. Additionally, improvement in the working capital cycle, resulting in reduced reliance on debt and strengthening of liquidity position on a sustained basis could also lead to an outlook change.

Negative factors – GEPIL's ratings could be downgraded if there is considerable decline in revenues, reduction in profit margins and cash flow generation on a sustainable basis. Moreover, a continued elongation of the working capital cycle exerting pressure on liquidity position, or deterioration in the credit profile of GE could also lead to a ratings downgrade.

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	For arriving at the ratings, ICRA has considered the consolidated financials of GEPIL; as on March 31, 2021 and Q1FY2022 results, the company had one wholly-owned subsidiary and one Joint venture (enlisted in Annexure-2)

About the company

GEPIL is involved in the engineering, procurement, and construction of key equipment for thermal and hydropower plants. It manufactures and/or supplies critical electrical and industrial equipment including boilers, turbines and pollution-control equipment for these power plants, along with associated services. The company's manufacturing facility is in Durgapur (West Bengal).

Key financial indicators (audited)

GEPIL(Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	2,492.1	3,343.0
PAT (Rs. crore)	84.6	70.5
OPBDIT/OI (%)	7.1%	4.5%
PAT/OI (%)	3.4%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.54	3.00
Total Debt/OPBDIT (times)	-	2.08
Interest Coverage (times)	3.60	2.24

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					Nov 18, 2021	Aug 20, 2021	February 1, 2021	Nov 4, 2020	Mar 23, 2020	Sep 27, 2019	Nov 27,2018	Jul 2,2018
1	Fund Based Limits	Long Term	390.0	-	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA (Stable)
2	Non Fund Based Limits – LC/BG	Long Term/Short Term	4450.0	--	[ICRA]A+ (Negative) /[ICRA]A1	[ICRA]A+ (Negative) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA (Stable) /[ICRA]A1+
3	Unallocated	Long Term/Short Term	200.0	-	[ICRA]A+ (Negative) /[ICRA]A1	[ICRA]A+ (Negative) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA (Stable) /[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based Limits	Simple
Non fund based limits	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
ICICI Bank	Fund Based Limits	NA	NA	NA	10.0	[ICRA]A+ (Negative)
Indusind Bank	Fund Based Limits	NA	NA	NA	5.0	[ICRA]A+ (Negative)
Axis Bank	Fund Based Limits	NA	NA	NA	225.0	[ICRA]A+ (Negative)
HDFC Bank	Fund Based Limits	NA	NA	NA	150.0	[ICRA]A+ (Negative)
ICICI Bank	Non Fund Based Limits – LC/BG	NA	NA	NA	1450.0	[ICRA]A+ (Negative) /[ICRA]A1
Canara Bank	Non Fund Based Limits – LC/BG	NA	NA	NA	600.0	[ICRA]A+ (Negative) /[ICRA]A1
HSBC Bank	Non Fund Based Limits – LC/BG	NA	NA	NA	700.0	[ICRA]A+ (Negative) /[ICRA]A1
State Bank of India	Non Fund Based Limits – LC/BG	NA	NA	NA	500.0	[ICRA]A+ (Negative) /[ICRA]A1
Indusind Bank	Non Fund Based Limits – LC/BG	NA	NA	NA	400.0	[ICRA]A+ (Negative) /[ICRA]A1
SMBC Bank	Non Fund Based Limits – LC/BG	NA	NA	NA	500.0	[ICRA]A+ (Negative) /[ICRA]A1
HDFC Bank	Non Fund Based Limits – LC/BG	NA	NA	NA	300.0	[ICRA]A+ (Negative) /[ICRA]A1
NA	Unallocated	NA	NA	NA	200.0	[ICRA]A+ (Negative) /[ICRA]A1

Source: *Company*

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

Company Name	GEPIL Ownership	Consolidation Approach
GE Power Boilers Services Limited	100%	Full Consolidation
NTPC GE Power Services Private Limited	50%	Equity method

Source: *GEPIL annual report FY2021 and Quarterly results.*

Corrigendum

Details of lenders have been updated in Annexure 1

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About ICRA Limited:

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