February 25, 2022

GE T&D India Limited (erstwhile Alstom T&D India Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working Capital Facilities	700.0	610.0	[ICRA]A+ (Negative); reaffirmed
Non-fund based – BG/LC	4380.0	4380.0	[ICRA]A+(Negative)/[ICRA]A1+; reaffirmed
Unallocated	1920.0	2010.0	[ICRA]A+(Negative)/[ICRA]A1+; reaffirmed
Total	**7,000.0**	**7,000.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to factor in GE T&D India Limited's (GETDIL) position as one of the major players in the power transmission equipment industry, supported by its established operational track record, wide product/service mix, strong technical capabilities, diversified customer base across public and private sector entities and the extensive experience of its parent/management in the industry. Moreover, the company derives technological synergies and financial flexibility from its strong parent—General Electric Company (GE)[1]. GETDIL's unexecuted order book provides revenue visibility for the medium term. However, timely execution of the same will be the key to drive the company's future profitability.

The outlook on the long-term rating continues to be Negative due to GETDIL's weak financial performance in 9M FY2022 and the expectation of continued pressure on its performance due to increase in raw material prices and lower order inflow. Going forward, the improvement in the order inflow over the medium term and sustained improvement in profit margins will be crucial in enhancing revenue visibility and driving an improvement in the credit metrics.
Additionally, the ratings are constrained by stiff competition in the industry, which coupled with the adverse impact of the pandemic and subdued economic activity has moderated GETDIL's order inflow. The company's profit margins have remained volatile in recent years because of sizeable provisioning against multiple heads, lower absorption of fixed overheads due to decline in revenues and commodity price inflation, causing cost escalations in some ongoing projects as majority contracts are fixed price in nature. Further, higher order book concentration towards private sector clients and state utilities, against Power Grid Corporation of India Limited (PGCIL) in the past, exposes GETDIL to greater execution and counterparty risks and increases the working capital requirements.

Key rating drivers and their description

Credit strengths

Established business position – GETDIL has an operational track record of several decades in the power transmission equipment industry. This, coupled with the 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—

[1] *rated Baa1 with Negative outlook by Moody's Investors Service*

products, solutions, automation and services. The company also manufactures 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, with GE being the ultimate parent. Additionally, being a part of the GE Group gives it an edge while bidding for fresh orders due to its access to technology and a wide client base because of the parent entity's global presence.

Unexecuted order book provides revenue visibility – The order inflow for GETDIL in 9M FY2022 has been slightly lower at around Rs. 1,617 crore against Rs. 1,677 crore in the corresponding previous-year period due to subdued economic activity and the adverse impact of the pandemic. Notwithstanding the same, the unexecuted order book of around Rs. 3,813 crore as on December 31, 2021 provides revenue visibility for the medium term.

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 clientele includes PGCIL, private sector clients and state utilities

Credit challenges

Intense competition in industry – The competition in the power transmission equipment space is stiff due to the presence of many large Indian companies as well as global majors operating through joint ventures.

Volatility in profit margins – GETDIL's profit margins have exhibited considerable volatility in recent years. Its operating profitability was adversely impacted in FY2022 owing to the fluctuation in raw material prices as majority contracts were fixed price in nature and increased operational cost owing to disruptions amid the pandemic. However, the company is making an effort to incorporate a price variation clause in all the new orders to protect its profit margins. While there has been slight improvement in the operating margins in Q3 FY2022 on a sequential basis, backed by steady execution of the order book and operational cost savings, further improvement in profit margins and order inflow over the medium term will be crucial in enhancing revenue visibility and driving the improvement in credit metrics.

Funding requirement due to elongated debtor levels – The funding requirements of the business remain high, primarily because of high debtor levels of Rs. 1,721 crore as of December 2021 (including retention money). Moreover, delay in the recovery of receivables and retention money elevated the funding requirements, resulting in reliance on debt in the past. While the debt levels have come down in recent quarters with some release in working capital, the level of recovery in debtors over the next few quarters will drive the funding requirements of the business, including reliance on debt.

Liquidity position: Adequate

GETDIL's liquidity position is adequate supported by internal accrual generation, free cash balances of (~Rs. 49 crore as of December 2021), cushion available in the form of undrawn working capital limits (Rs. 610 crore as of December 2021), no term loan repayment liability and access to the GE Group's internal line of credit (board approved borrowing limit of Rs. 900 crore) from the GE India cash pool and Inter corporate deposits from Grid Equipment Private Limited (holding company of GETDIL). Improvement in the cash accrual generation with reduction in receivable levels over the next few quarters will be key in driving the future liquidity position.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade over the near term is less likely. However, the outlook may be revised to Stable if a steady execution of the pending order book and a healthy incremental order inflow enable GETDIL to maintain its scale of operations and improve its operating profit margins above 4.5% on a sustained basis, resulting in an improvement in the key credit metrics.

Negative factors – GETDIL's ratings could be downgraded if there is continued pressure on revenues and the operating profit margins remain below 4.5% on a sustained basis. Also, any further stretch of the working capital cycle, exerting pressure on liquidity position, and a greater reliance on debt could 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	The ratings are based on the standalone financial profile of the company.

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 March 31, 2021.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	3212.5	3480.2
PAT (Rs. crore)	-302.6	60.3
OPBDIT/OI (%)	-5.0%	5.7%
PAT/OI (%)	-9.4%	1.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	2.5
Total Debt/OPBDIT (times)	-3.0	1.1
Interest Coverage (times)	-2.4	2.3

**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 FY2021		Date & Rating in FY2020			Date & Rating in FY2019	
					Feb 25, 2022	Mar 17, 2021	Jul 8, 2020	Feb 18, 2020	Nov 14, 2019	Sep 6, 2019	Nov 27, 2018	Jul 2, 2018
1	Fund-based Limits	Long Term	610.0	-	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA (Stable)
2	Non-fund Based Limits – LC/BG	Long Term/Short Term	4380.0	-	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]AA- (Negative) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA (Stable) /[ICRA]A1+
3	Unallocated	Long Term/Short Term	2010.0	-	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]AA- (Negative) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA (Stable) /[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based limit	Simple
Non-Fund based limit	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 analysing an entity's financial, business and industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA’s website: 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	Fund-based Limits	NA	NA	NA	610.0	[ICRA]A+ (Negative)
NA	Non-fund Based Limits – LC/BG	NA	NA	NA	4380.0	[ICRA]A+ (Negative) /[ICRA]A1+
NA	Unallocated	NA	NA	NA	2010.0	[ICRA]A+ (Negative) /[ICRA]A1+

Source: *GETDIL*

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

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