

July 08, 2020

GE T&D India Limited (erstwhile Alstom T&D India Limited): Rating outlook revised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working Capital Facilities	1,000.0	1,000.0	[ICRA]A+ outstanding; outlook revised to Negative from Stable
Non-fund based – BG/LC	5,245.0	5,245.0	[ICRA]A+/[ICRA]A1+ outstanding; outlook revised to Negative from Stable
Unallocated	755.0	755.0	[ICRA]A+/[ICRA]A1+ outstanding; outlook revised to Negative from Stable
Total	7,000.0	7,000.0	

*Instrument details are provided in Annexure-1

Material Event

GE T&D India Limited (GETDIL; erstwhile Alstom T&D India Limited) announced its Q4 FY2020 results on June 29, 2020. The company reported an operating income (OI) of Rs. 664.2 crore and net loss of Rs. 187.1 crore in Q4 FY2020 against an OI of Rs. 895.3 crore and net profit of Rs. 26.1 crore in Q4 FY2019. Also, in FY2020, GETDIL reported an OI of Rs. 3,158.7 crore and a net loss of Rs. 302.6 crore against an OI of Rs. 4,266.4 crore and net profit of Rs. 212.7 crore in FY2019.

Impact of the Material Event

ICRA revised the rating outlook on the long-term rating to Negative from Stable.

Rationale

The revision in rating outlook factors in GETDIL's weak financial performance in FY2020 and expectation of continued pressure on revenue and profitability metrics in the near term due to adverse business dynamics and challenges in project execution in light of the adverse impact of novel coronavirus (Covid-19) pandemic on operations. Intense competition has already resulted in lower order inflow in FY2020, which coupled with the adverse impact of the pandemic and subdued economic activity, is likely to further moderate order inflow in the current fiscal, as already evident from slowing new order bookings in Q1 FY2021. Further, an increase in order book concentration towards private sector clients and state utilities, as against Power Grid Corporation of India Limited (PGCIL) in the past, exposes GETDIL to greater execution and counterparty risks and results in increased working capital requirements, as demonstrated in its performance in FY2020.

The company's revenues have declined considerably due to slower execution of some ongoing projects, lower order inflow, disruption to operations due to nationwide lockdown in the recent past, and limited revenue contribution from the ongoing high voltage direct current (HVDC) project. Lower absorption of fixed overheads due to revenue decline and sizeable provisioning against multiple heads and cost escalations in ongoing projects have led to sizeable operating and net losses in FY2020. This, coupled with some delay in recovery of receivables, has elevated the funding requirements,

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translating into higher reliance on external debt. The improvement in performance over the next few quarters will be contingent on steady execution of the unexecuted order book, steady order inflow and improvement in working capital cycle, driven by improved recovery of receivables (including retention money).

The ratings, however, draw comfort from the company's established position in the power transmission equipment industry, its wide product/service mix and strong technical capabilities, its long track record of operations and extensive experience of its parent/management in the industry. GETDIL also derives technological synergies and financial flexibility from its strong parent—General Electric Company (GE)¹. Leveraging on these strengths, GETDIL has largely been able to sustain a sizeable unexecuted order book. While this provides revenue visibility for the medium term, timely execution of the same will be the key for driving the company's future profitability. The company's clientele is well diversified and includes both public and private sector customers; however, PGCIL's share of orders has reduced in recent years.

Key rating drivers and their description

Credit strengths

Established track record – GETDIL has an operational track record of several decades in the power transmission equipment industry. This, coupled with 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—products, solutions, automation and services. The company is also involved in manufacturing 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 (ultimate parent—GE). Additionally, being a part of the GE Group augurs well while bidding for fresh orders, given the access to technology and a wide client base because of the GE Group's global presence.

Sizeable unexecuted order book – Sizeable unexecuted order book of around Rs. 5,900² crore as on March 31, 2020, provides revenue visibility for the medium term. Order inflow in FY2020 was lower at around Rs. 3,018 crore against Rs. 3,750 crore in the previous year. Nevertheless, timely execution of the unexecuted order book will be crucial.

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 with presence limited to power transmission segment – The stiff competition in power transmission equipment space, characterised by the presence of a number of large Indian companies, is further accentuated by the presence of global majors through joint ventures and threat from Chinese/Korean equipment manufacturers.

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

² includes a non-moving order with pending work of around Rs. 202 crore

Consistent decline in revenue and pressures on profit margins – GETDIL reported a weak financial performance in FY2020. The company's revenues declined by 26% YoY (both for Q4 as well as FY2020) to Rs. 3,158.7 crore (Rs. 4,266.4 crore in FY2019) because of slower execution of some ongoing projects, lower order inflow, disruption in operations due to the nationwide lockdown in the recent past, and limited revenue contribution from the ongoing HVDC project. GETDIL's profitability already declined considerably in 9M FY2020 due to lower absorption of fixed overheads, inventory write-offs and exceptional impairment cost (related to the Naini manufacturing facility) and continued provisioning towards diminution in value of some investments of the employee provident fund trust. Adding to the woes, sizeable provisioning against warranty and bad debts in Q4 led to sizeable operating and net losses for the quarter and FY2020. With operations being impacted due to the nationwide lockdown for the first few months of the current fiscal, associated executional challenges and intense competition, revenues and profitability are likely to remain under pressure in the near term.

Elevated funding requirements lead to increased reliance on debt and moderation in coverage indicators – Sizeable net losses in FY2020 coupled with some delay in recovery of receivables has elevated the funding requirements, translating into higher reliance on debt (~Rs. 489.7 crore as on March 31, 2020 against Rs. 80.5 crore as on March 31, 2019). Higher debt levels, coupled with decline in profitability, has resulted in weakening of debt protection metrics for FY2020. Moreover, given the disruption in operations in the first few months of the current fiscal, funding requirements are estimated to remain high, with continued high reliance on debt.

Change in order mix may result in higher working capital intensity – Change in order book mix in terms of increased share of private sector clients and state utilities and reducing share of PGCIL are likely to accentuate the challenges pertaining to project execution as well as elevate the working capital requirements of the business.

Liquidity Position: Adequate

GETDIL's liquidity position is **adequate**. A sharp increase in operating expenses, even as revenues de-grew in FY2020, translated into negative fund flow from operations. This, coupled with some delay in recovery of receivables, led to increased reliance on debt in FY2020. Nevertheless, GETDIL's liquidity position continues to be supported by free cash balances of Rs. 59.5 crore as on March 31, 2020, cushion available in the form of undrawn working capital limits and access to the GE Group's internal line of credit. Improvement in cash accrual generation with reduction in receivable levels over the next few quarters, will be the key in driving the future liquidity position.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade over the near term is less likely. However, the outlook may be revised to Stable if GETDIL demonstrates healthy growth in its revenues and improvement in profit margins on the back of steady execution of the pending order book and incremental order inflow; and reduction in debt levels, on a sustained basis.

Negative triggers – GETDIL's ratings could be downgraded if there is continued pressure on revenues and inability to improve profitability, due to executional challenges and lower order inflow in light of the adverse impact of the pandemic. Also, stretching of the working capital cycle, exerting pressure on liquidity position, and 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	Standalone

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, 2020.

In FY2020, GETDIL reported a net loss of Rs. 302.6 crore on an OI of Rs. 3,158.7 crore compared with a net profit of Rs. 212.7 crore on an OI of Rs. 4,266.4 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	4,266.4	3,158.7
PAT (Rs. crore)	212.7	- 302.6
OPBDIT/OI (%)	11.5%	-6.8%
PAT/OI (%)	5.0%	- 9.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.8
Total Debt/OPBDIT (times)	0.2	- 2.3
Interest Coverage (times)	5.8	- 3.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2021)				Rating History for the past 3 years								
Instrument	Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019		FY2018			
				8-Jul-2020	18-Feb-2020	14-Nov-2019	6-Sep-2019	27-Nov-2018	2-Jul-2018	18-May-2017	12-Apr-2017	
1	Fund-based Limits	Long Term	1,000.0	-	[ICRA]A+(Negative)	[ICRA]A+ (Stable)	[ICRA]A A- (Negative)	[ICRA]A A- (Stable)	[ICRA]A A- (Stable)	[ICRA]A A (Stable)	[ICRA]A A (Stable)	[ICRA]A A (Stable)
2	Non-fund Based Limits – LC/BG	Long Term/Short Term	5,245.0	-	[ICRA]A+ (Negative) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A A- (Negative) / [ICRA]A1+	[ICRA]A A- (Stable) / [ICRA]A1+	[ICRA]A A- (Stable) / [ICRA]A1+	[ICRA]A A (Stable) / [ICRA]A1+	[ICRA]A A (Stable) / [ICRA]A1+	[ICRA]A A (Stable) / [ICRA]A1+
3	Unallocated	Long Term/Short Term	755.0	-	[ICRA]A+ (Negative) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A A- (Negative) / [ICRA]A1+	[ICRA]A A- (Stable) / [ICRA]A1+	[ICRA]A A- (Stable) / [ICRA]A1+	[ICRA]A A (Stable) / [ICRA]A1+	[ICRA]A A (Stable) / [ICRA]A1+	[ICRA]A A (Stable) / [ICRA]A1+

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 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	-	-	-	1,000.0	[ICRA]A+ (Negative)
NA	Non-fund Based Limits - LC/BG	-	-	-	5,245.0	[ICRA]A+ (Negative) / [ICRA]A1+
NA	Unallocated	-	-	-	755.0	[ICRA]A+ (Negative) / [ICRA]A1+

Source: GE T&D India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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ANALYST CONTACTS

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Anupama Arora
+91-124-4545303
anupama@icraindia.com

Deepak Jotwani
+91-124-4545870
deepak.jotwani@icraindia.com

RELATIONSHIP CONTACT

L. Shivkumar
+91-20-61143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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