

January 20, 2020

Voith Hydro Private Limited: Ratings reaffirmed at [ICRA]A+ (CE) (Stable)/[ICRA]A1 (CE); rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund Based Limits	300.00	610.00	[ICRA]A+ (CE) (Stable)/[ICRA]A1 (CE); reaffirmed
Total	300.00	610.00	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement	[ICRA]A
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Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating action factors in ICRA's analytical approach for rating guaranteed bank facilities, based on the revised methodology, viz. "approach for rating debt instruments backed by third-party explicit support". The ratings for the bank facilities of Voith Hydro Private Limited (VHPL) are principally based on the corporate guarantees provided by one of its stakeholders, Voith GmbH & Co. KGaA (rated: Moody's long-term Issuer rating of Baa3), for the bank lines of Rs. 610.00 crore. The Stable outlook on the [ICRA]A+(CE) rating reflects that the foreign parent's credit quality would continue to benefit from good business diversification, strong market positions and technological know-how, strong liquidity profile and substantial financial flexibility and conservative financial policy.

Adequacy of credit enhancement

To arrive at the ratings, ICRA has assessed the attributes of the two separate guarantees (for two lenders) issued by Voith GmbH & Co. KGaA in favour of the Rs. 300-crore bank limit and enhanced bank limit of Rs. 310 crore. The guarantee for the Rs. 300-crore bank limit is legally enforceable, irrevocable and unconditional, and covers the entire amount and tenor of the rated instrument. The guarantee for the Rs. 310-crore enhanced limit covers the entire amount and tenor of the rated instrument. However, none of the guarantees have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has arrived at the ratings of [ICRA]A+ (CE) (Stable)/[ICRA]A1(CE) to the said instrument against the unsupported rating of [ICRA]A. If the rating of the guarantor, Voith GmbH & Co. KGaA, undergoes a change in future, the same would have a bearing on the ratings of the aforesaid instrument as well. The rating of this instrument may undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated

entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » *The guarantor is liable to pay all amounts due by the borrower under the facilities*
- » *The guarantees will not be affected by the winding up or insolvency of the borrower*
- » *The guarantees are valid for the entire tenure of the rated facilities*

Key rating drivers and their description

Credit strengths

Explicit support through corporate guarantees from Voith GmbH & Co. KGaA: The rating derives comfort from the guarantees issued by Voith GmbH & Co. KGaA in favour of bank facilities of Rs. 610 crore. The guarantees cover the entire amount due under the rated facilities along with the tenure of the rated facilities.

Strong parentage: VHPL belongs to the Voith Group, which is a globally renowned player in the five essential markets of energy, oil and gas, paper, raw materials, and transport and automotive. VHPL benefits from its parentage in terms of technical and financial support. Additionally, being part of the Voith Group provides leverage while bidding for fresh orders.

Healthy order book: VHPL has expertise in developing, designing, manufacturing, procuring, erecting, installing and maintaining all kinds of hydro power projects of capacities ranging from 1–250 MW and above. Its high technical competence, cost competitiveness, association with a strong Group and established track record have resulted in a healthy order book position at the end of October 2019. The pending order book of the company is expected to be executed in between three-four years, offering healthy revenue visibility for the medium term.

Comfortable capital structure: VHPL's capital structure remained comfortable at the end of FY2019. The comfortable capital structure was primarily a result of zero long-term debt and healthy cash accruals. The debt comprised only short-term loans (availed under the cash pool arrangement with the Group's Indian entities).

Price escalation clauses in contracts: The presence of price-escalation clause in most of the contracts mitigates the vulnerability of the company's margins to adverse fluctuations in the prices of key raw material to a large extent.

Credit challenges

Exposure to intense competition: The company faces intense competition from the large-sized incumbent domestic and global players in the hydro energy space, forcing it to bid aggressively for new orders, which puts pressures on its margins.

Exposure to forex movement: VHPL derives most of its revenues from the overseas market. This may impact the profitability of the overseas projects in case of adverse movement in forex. Nevertheless, the company hedges most of its exposure in foreign currency.

Liquidity position of the guarantor: Strong

The liquidity position of the guarantor, Voith GmbH & Co. KGaA is **strong** with EUR 418 million cash and cash equivalents on its balance sheet as on September 30, 2019. This strong cash balance is further supported by an undrawn EUR 550-million multicurrency syndicated credit facility, which was refinanced in April 2018 and matures in 2024. Voith GmbH & Co. KGaA's liquidity is also supported by certain bilateral committed credit facilities. These sources are sufficient to cover liquidity needs, including any intra-year movements of working capital and short-term debt maturities of EUR 109 million. The information on the liquidity position is based on the annual report 2019 of Voith GmbH & Co. KGaA.

Rating sensitivities

Positive triggers: The rating would remain sensitive to change in the credit profile of the foreign parent, Voith GmbH & Co. KGaA.

Negative triggers: The rating would remain sensitive to change in the credit profile of the foreign parent, Voith GmbH & Co. KGaA, and linkages with the borrower. Further, negative pressure on the rating could arise in case of a significant decline in operating income (OI) or profitability of VHPL. Stretch in the working capital cycle of VHPL could also exert negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group company: Voith GmbH & Co. KGaA The assigned ratings are based on the corporate guarantees extended by Voith GmbH & Co. KGaA.
Consolidation/Standalone	The assigned ratings are based on the corporate guarantees extended by Voith GmbH & Co. KGaA.

About the company

VHPL 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, it 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.

Key financial indicators - VHPL

	FY2018	FY2019
	Audited	Audited
Operating Income (Rs. crore)	488.87	457.45
PAT (Rs. crore)	25.02	18.24
OPBDIT/OI (%)	2.56%	9.39%
RoCE (%)	31.53%	22.40%
Total Outside Liabilities/Tangible Net Worth (times)	12.45	10.04
Total Debt/OPBDIT (times)	10.49	4.45
Interest Coverage (times)	0.70	2.19
DSCR (excluding short-term debt)	3.09	1.96

Source: VHPL's audited financial reports

About the guarantor

Voith GmbH & Co. KGaA (erstwhile: Voith GmbH), based in Heidenheim, Germany, is the operative head organisation and parent company of the Voith Group. With its broad portfolio of systems, products and services, the Group at present serves five essential markets – energy, oil and gas, paper, raw materials, and transport and automotive. The Voith Group operates in over 60 countries worldwide and employs over 19,000 people. The Group reported an OI of over EUR 4.49 billion during the fiscal year that ended in September 2019. Currently, Voith Paper, Voith Turbo, Voith Hydro and Voith Digital ventures are the four divisions of the Voith Group of Companies. The Group is privately owned by descendants of the Voith family, but has been led by non-family senior managers for decades.

Key financial indicators (consolidated)- Voith GmbH & Co. KGaA

	Oct 2017-Sep 2018	Oct 2018-Sep 2019
	Audited	Audited
Operating Income (EUR million)	4444.90	4493.37
PAT (EUR million)	90.21	89.17
OPBDIT/OI (%)	3.85%	4.18%
RoCE (%)	9.68%	10.86%
Total Outside Liabilities/Tangible Net Worth (times)	2.38	2.64
Total Debt/OPBDIT (times)	2.59	2.13
Interest Coverage (times)	6.70	4.85
DSCR	2.19	1.50

Source: Voith GmbH & Co. KGaA annual reports (fiscal year: October-September)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding	Rating 20-January-2020	FY2019 27-July-2018	FY2018 23-May-2017	FY2016 22-Mar-2016	
1 Non-Fund Based Limits	Long Term (CE)/ Short Term (CE)	610.00	-	[ICRA]A+(CE) (Stable)/A1(CE)	[ICRA]A+(SO) (Stable)/A1(SO)	[ICRA]A(SO) (Stable)/A1 (SO)	[ICRA]A(SO) (Stable)/A1 (SO)	

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-Fund Based Limits	-	-	-	610.00	[ICRA]A+(CE) (Stable)/[ICRA]A1(CE)

Source: VHPL

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