India Ratings Upgrades CG Power and Industrial Solutions to 'IND AA+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded CG Power and Industrial Solutions Limited's (CG Power) Long-Term Issuer Rating to 'IND AA+' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR5.00	IND AA+/Stable/ IND A1+	Long term rating upgraded and short-term rating affirmed
Non-fund based working capital limits	-	-	-	INR18.00	IND A1+	Affirmed
Commercial Paper (CP) @*	-	-	-	INR5.00	IND A1+	Affirmed
Derivative limits	-	-	-	INR0.30	IND A1+	Affirmed

@ yet to be placed
* The CP will not be carved out from the fund-based working capital limits

Analytical Approach: To arrive at the ratings, Ind-Ra continues to take a bottom-up approach, according to its Parent Subsidiary Rating Linkage criteria, based on the strong operational and strategic linkages between CG Power and its parent, Tube Investments of India Limited (TIIL; part of the Murugappa group); the legal linkages between the companies remain weak. Furthermore, Ind-Ra continues to take a consolidated view of CG Power and its subsidiaries.

The upgrade reflects a continued improvement in CG Power's performance during FY23. Additionally, the company has repaid its entire debt and has become a gross debt-free company. Ind-Ra believes the strong performance is likely to continue over the medium term, driven by the company's healthy order book and strong market position, especially in the industrial segment. Furthermore, the agency draws comfort from the strong strategic and operational linkages of CG Power with TIIL and the Murugappa group.

Key Rating Drivers

Significant Improvement in Financial Performance: CG Power reported a significant turnaround in performance during FY22 and maintained its growth trajectory during FY23, across the both Industrial and power segments. At the consolidated level, CG Power's revenue increased by around 27% yoy to around IINR69.7 billion in FY23, driven by the highest-ever sales in the industrial segment and highest-ever order booking for the transformer business segment. The consolidated EBIDTA increased to INR9.9 billion in FY23, with the EBITDA margin rising to 14.2% (FY22: INR6.3 billion, 11.5%), led by improved economies of scale, softness in input prices, and better supply chain management. The industrial systems segment reported a jump of 25% yoy in revenue to INR49.3 billion in FY23, with an EBITDA (including other income) of INR8.4 billion (FY22: INR5.3 billion). The power systems segment's revenue grew by 33% yoy to INR20.2 billion in FY23, with an EBITDA (including other income) of INR2.6 billion (FY22: INR1.7 billion). In-Ra expects the growth to continue over the medium term, backed by capacity expansion in the motor and transformer segment and increased traction in the railways businesses. On 14 July 2023, the company disclosed the sale of its US-based subsidiary, QEI, LLC for USD 10.5 million (excluding cash). Given QEI's small scale of operations (FY23 revenue: INR942 million), Ind-Ra does not expect the sale to have any material impact on CG Power's performance.

Robust Credit Metrics; Gross Debt-Free Company: On 5 December 2022, CG Power exercised its right of early redemption on INR2,000 million of non-convertible debentures on completion of two years from the date of allotment, post which it became a gross debt-free company. Also, the company's fund-based working capital facilities remain unutilised. The consolidated interest coverage (EBITDA/interest expense) ratio improved to 61.3x in FY23 (FY22: 9.3x), led by a decline in interest costs and improved EBITDA. In FY23, after a gap of seven years, the company paid dividend of INR2,291 million. Ind-Ra expects the company to maintain healthy credit metrics over the medium term, driven by steady profitability, and funding of capex towards capacity expansion and debottlenecking/modernisation of plant through internal accruals.

Strong Order Book Visibility; Healthy Customer Diversification: During FY23, the order intake at the standalone level improved by 20% to INR78.3 billion, with healthy order inflows across both power and industrial segments. At end-March 2023, CG Power's unexecuted standalone order book stood at around INR43.2 billion (FY22: INR36.8 billion), providing revenue visibility of around 66% of standalone FY23 revenue. The order book is fairly diversified across segments, with motor, railways, transformers and switchgear businesses contributing 20%-30% each. The top 10 customers accounted for about 22% of the standalone revenue in FY23, indicating healthy customer diversification.

Liquidity Indicator – Adequate: CG Power had unencumbered cash and cash equivalents of INR6.8 billion at FYE23 (FYE22: INR4.4 billion). The company's fund-based working capital limits are unutilised, which underpins the strong liquidity position. The average utilisation of the non-fund limits was around 50% during the 12 months ended May 2023. During FY23, the working capital cycle was one day (FY22: negative 11 days); the gross working capital stood at 27% of the revenue in FY23 (FY22: 28%), while the net working capital accounted for 6% of the same (3%). The company's free cash flows (Ind-Ra analysis) increased to INR6.5 billion in FY23 (FY22: INR3.8 billion) mainly due to the growing scale of operations. Ind-Ra expects the company to generate steady free cash flow, which will be used to fund the capex as well as any shareholder pay-outs. In addition, Ind-Ra expects the parent, TIIL /Murugappa group, to continue to provide support to CG Power in case of any exigency.

Strong Parentage: CG Power is a subsidiary of TIIL, which belongs to the Murugappa group. The company's board has representation from the Murugappa group. Furthermore, TIIL's executive chairman and executive vice chairman are on the board of CG Power. CG Power contributed around 53% to the consolidated EBIDTA of TIIL in FY23 (FY22: 44%), thereby strengthening the strategic linkages between the companies. Ind-Ra expects CG Power to remain critical for the overall growth and diversification of TIIL's operations. The Murugappa group has a demonstrated track record of successful value creation and turning around businesses, and extending continuous support to the group companies. The agency derives comfort from the group's domain expertise and operational experience in managing engineering companies. In addition, CG Power benefits from financial flexibility owing to the company being a part of the Murugappa group.

Substantial Progress on Resolution of Past Contingent Liabilities: Over the last two years, CG Power has signed various guarantee settlement agreements with multiple lenders on account of corporate guarantee settlements. During FY23, the company settled all its guarantee obligations towards the loans availed by its erstwhile subsidiaries in Belgium (deconsolidated with effect from 1 January 2020)). The company faces an income tax demand of around INR6 billion, although the management strongly believes that the demand is not sustainable or legally valid, and will be reversed at the appellate levels; the demand has already been stayed by the Bombay High Court. The crystallisation of any other such unforeseen liabilities might adversely affect the liquidity and/or credit metrics of the company to some extent.

Exposure to Intense Competition and Raw Material Price Rise: CG Power operates in a competitive industry that has several established players and a large number of the orders are procured through competitive bidding. In addition, any increase in raw material price has an adverse impact on its profitability, although this is partly offset by orders with price escalation clauses as well as commodity hedging. However, as the average execution cycle of these orders is five-to-six months, the risk is mitigated to some extent. Also, the company has taken various cost optimisation and vendor rationalisation measures to protect its profitability.

Standalone Profile: In FY23, CG Power recorded a revenue of around INR65.8 billion (FY22: INR51.6 billion), EBITDA margin of 14.2% (11.6%), and interest coverage of 64x (9x).

Rating Sensitivities

Positive: A substantial increase in the profitability, further diversification in new geographies while maintaining the credit metrics, all on a sustained basis, could lead to a positive rating action.

Negative: Deterioration in the profitability and credit metrics with the net leverage increasing beyond 1.5x and/or any weakening of linkages with the parent, will be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on CG Power, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

CG Power, part of the Murugappa group, has two segments - power systems and industrial systems. The power systems segment manufactures electrical products such as transformers, switchgears and circuit breakers, which find application in power transmission. The industrial systems segment manufactures high- and low-tension rotating machines (motors and alternators), stampings, as well as railway transportation and signalling products.

FINANCIAL SUMMARY

CG Power: Consolidated Financials (INR billion)	FY23	FY22
Revenue	69.7	54.8
EBIDTA	9.9	6.3
EBIDTA margin (%)	14.2	11.5
Interest Expense	0.2	0.7
Gross debt (including acceptance)	2.9	5.8
EBITDA/gross interest paid (x)	61.3	9.3
Net leverage (x)	n.m.	n.m.
Source: CG Power, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

Rating History

Instrument Type	Current Rating/ Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	15 June 2022	11 February 2022	12 February 2021
Issuer rating	Long-term	-	IND AA+/ Stable	IND AA/ Stable	IND AA-/Stable	IND AA-/ Stable
Fund-based working capital limits	Long-term/Short-term	INR5.00	IND AA+/Stable/ IND A1+	IND AA /Stable/ IND A1+	IND AA-/Stable/ IND A1+	IND AA-/Stable/ IND A1+
Non-fund based working capital limits	Short-term	INR18.00	IND A1+	IND A1+	IND A1+	IND A1+

CP	Short-term	INR5.00	IND A1+	IND A1+	IND A1+	IND A1+
Derivative limits	Short-term	INR0.30	IND A1+	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based working capital limits	Low
Non-fund based working capital limits	Low
CP	Low
Derivative limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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