

CG Power and Industrial Solutions Limited

Registered Office:

CG House, 6th Floor, Dr Annie Besant Road, Worli, Mumbai 400 030, India

T: +91 22 2423 7777 F: +91 22 2423 7733 W: www.cgglobal.com

Corporate Identity Number: L99999MH1937PLC002641



Smart solutions.
Strong relationships.

Our Ref: COSEC/250/2021-22

12th February, 2022

By Portal

The Corporate Relationship Department

BSE Limited

1st Floor, New Trading Ring

Rotunda Building,

Phiroze Jeejeebhoy Towers

Dalal Street, Mumbai 400 001

Scrip Code : 500093

The Assistant Manager – Listing

National Stock Exchange of India Ltd.

Exchange Plaza, Bandra-Kurla Complex

Bandra (East)

Mumbai 400 051

Scrip Id : CGPOWER

Dear Sir/Madam,

Sub: Intimation of affirmation of credit rating under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 of CG Power and Industrial Solutions (“Company”)

Ref: Our letter no. COSEC/268/2020-21 dated 12th February 2021

We refer to our captioned letter wherein we had informed the stock exchanges regarding the upgrade in Company's Long Term Issuer rating to 'IND AA-' from 'IND D' by India Ratings and Research (Ind-Ra). In this regard, pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that India Ratings and Research (Ind-Ra) has affirmed the Company's Long Term Issuer rating at 'IND AA-' (*as attached*). The Outlook is Stable. The instrument wise rating actions are as follows:

Sr. No	Instrument Type	Size of Issue (billion)	Rating/Outlook	Rating Action
1	Term loans	INR 5.02 (reduced from INR 8.65)	IND AA-/Stable	Affirmed
2	Fund-based working capital limits	INR 5	IND AA-/Stable/ IND A1+	Affirmed
3	Non-fund-based working capital limits	INR 18	IND A1+	Affirmed
4	Commercial papers (CPs) @*	INR 2.5	IND A1+	Affirmed
5	Derivative Limits	INR 0.3	IND A1+	Affirmed

@ yet to be placed

* CPs will be carved out from the fund-based working capital limits.

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This is for your information and records.

Yours faithfully

For CG Power and Industrial Solutions Limited

VARADARAJAN
PURUSHOTHAMAN

Digitally signed by
VARADARAJAN
PURUSHOTHAMAN
Date: 2022.02.12
22:26:49 +0530

P Varadarajan
Company Secretary and Compliance Officer

Encl. as above

India Ratings Affirms CG Power and Industrial Solutions at 'IND AA-/Stable

11

FEB 2022

By Harsha Sodhani

India Ratings and Research (Ind-Ra) has affirmed CG Power and Industrial Solutions Limited's (CG Power) Long-Term Issuer Rating at '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
Term loans	-	-	FY28	INR5.02 (reduced from INR8.65)	IND AA-/Stable	Affirmed
Fund-based working capital limits	-	-	-	INR5	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR18	IND A1+	Affirmed
Commercial paper (CP) @*	-	-	-	INR2.5	IND A1+	Affirmed
Derivative Limits	-	-	-	INR0.3	IND A1+	Affirmed

@ yet to be placed

* CP will be carved out from the fund-based working capital limits

Analytical Approach: To arrive at the ratings, Ind-Ra continues to apply the top-down approach according to its Parent and Subsidiary Rating Linkage criteria and has notched down the rating of CG Power's from its parent, Tube Investments of India Limited (TIIL), as CG Power has strong legal and strategic, and moderate operational linkages with its parent. Ind-Ra continues to take a consolidated view of CG Power and its subsidiaries.

KEY RATING DRIVERS

Strong Parentage: CG Power is a subsidiary of TIIL (a Murugappa Group entity). The company's board has representation from the Murugappa Group as well as appointed independent directors. The group has been actively supervising CG Power's operations post the acquisition. Furthermore, TIIL's managing director is on the board of CG Power and is closely involved in the strategic decision making of the company. Ind-Ra believes the potential success of CG Power is crucial for TIIL, as the agency expects the former to contribute significantly to the consolidated revenue in the medium term. 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.

Significant Improvement in Financial Performance: CG Power reported consolidated EBITDA profit of INR1,075 million in FY21 against a loss of INR36 million in the previous year. The EBITDA improved due to the company's exit from loss-making operations and business restructuring. The consolidated revenue, however, fell to INR29,640 million in FY21 (FY20: INR51,099 million) as a result of the restructuring. However, the company reported a strong improvement in performance in FY22, reporting revenue and EBITDA of INR40,548 million and INR4,846 million, respectively, in 9MFY22.

Metrics to Improve Sharply from FY22: On a consolidated basis, in FY21, the net leverage (net debt/EBITDA) and interest coverage (EBITDA/net Interest expense) stood at 9.0x and 1.25x, respectively. However, Ind-Ra expects the credit metrics to witness a sharp improvement in FY22, with the net leverage declining to below 1x and the interest coverage exceeding 6x, led by the rise in profitability.

Strong Order Book Visibility; Strong Customer Diversification: CG Power had an outstanding standalone orderbook of INR 32,100 million at 9MFY22, thereby offering more than 12 months of revenue visibility in the relevant segments. The top 10 customers accounted for only about 21% of the standalone revenue in FY21, indicating strong customer diversification.

Liquidity Indicator – Adequate; Supported by Parent: CG Power does not have any debt maturities before FY26 and its fund-based facilities were unutilised over the 12 months ended 31 January 2022. Ind-Ra expects the company to generate strong free cash flow before interest expense over FY22-FY24. The free cash flow along with the cash of INR5,336 million (at FYE21) and undrawn fund-based limits of INR5,000 million should be more than enough to meet the cumulative interest expense during the same period. In addition, Ind-Ra expects the parent, TIIL /Murugappa Group, to provide support in case of any short-term liquidity issues.

Crystallisation of Contingent Liabilities Might Slightly Impact Financial Position: During FY21, based on correspondence with one of the lenders, CG Power had made a provision of INR336.3 million towards the corporate guarantee obligation amounting to INR1,462 million provided to certain overseas entities that had been declared as bankrupt and were under liquidation at that time. However, the said lender subsequently raised claim on the full amount along with interest; the matter is sub judice. In addition, the company faces income tax demand for around INR6,000 million, 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 these contingent liabilities or any other such unforeseen liabilities might adversely affect the liquidity or credit metrics of the company to some extent.

RATING SENSITIVITIES

Positive: Further increase in the scale of business, a longer track record of strong financial results and resolution of all the pending issues with respect to restructuring could result in an upgrade.

Negative: Any adverse development with regard to the resolution of the pending issues with respect to restructuring or a significant increase in the financial leverage may result in a downgrade.

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, either due to 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 signaling products.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY22	FY21	FY20
Revenue (INR billion)	40.548	29.640	51.099
EBITDA (INR billion)	4.846	1.075	-0.0
EBITDA margin (%)	12.0	3.6	-0.1
Gross Interest coverage (x)	9.4	0.5	NA
Cash (INR billion)	4.483*	5.3	2.4
Source: CG Power, Ind-Ra			
*Cash at 1HFYE22			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/ Rating Watch/ Outlook					
	Rating Type	Rated Limits (billion)	Rating	12February 2021	18 November 2019	23 August 2019	5 August 2019	3 April 2019	
Issuer rating	Long-term	-	IND AA-/Stable	IND AA-/Stable	IND D	IND B/Negative	IND BBB+/RWN	IND A+/RWN	
Term loans	Long-term	INR5.02	IND AA-/Stable	IND AA-/Stable	-	-	-	-	
Fund-based working capital limits	Long-term/Short-term	INR5	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+					
Non-fund-based working capital limits	Short-term	INR18	IND A1+	IND A1+					
CPs	Short-term	INR2.5	IND A1+	IND A1+	-	-	-	-	
Derivative limits	Short-term	INR0.3	IND A1+	IND A1+	-	-	-	-	

COMPLEXITY LEVEL OF INSTRUMENTS

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

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

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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Applicable Criteria

[Evaluating Corporate Governance](#)
[Corporate Rating Methodology](#)
[Parent and Subsidiary Rating Linkage](#)
[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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