



Press Release

GMR Energy Trading Limited [GETL]

June 16, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned*	Rating Action
1	Long Term Fund based – Term Loan	280.15	IVR BBB- (CE)/ Stable Outlook; [IVR Triple B Minus (Credit Enhancement) with Stable Outlook]	Assigned
2	Long Term Fund based – Cash Credit	10.00	IVR BBB- (CE)/ Stable Outlook; [IVR Triple B Minus (Credit Enhancement) with Stable Outlook]	Reaffirmed
3	Short Term Fund based – Working Capital Demand Loan	49.00 (reduced from INR 50)	IVR A3 (CE); [IVR A Three (Credit Enhancement)]	Reaffirmed
4	Short Term Non-Fund based	11.00 (reduced from INR 25)	IVR A3 (CE); [IVR A Three (Credit Enhancement)]	Reaffirmed
5	Proposed Short Term Working Capital limit	15.00	IVR A3 (CE); [IVR A Three (Credit Enhancement)]	Assigned
	Total	365.15		

**CE rating fully backed by an unconditional and irrevocable Corporate Guarantee of GMR Infrastructure Limited.*

Details of facilities are in Annexure 1

Rating Rationale

The rating assigned to the bank facilities of GMR Energy Trading Limited (GETL) continues to derive comfort from an unconditional & irrevocable Corporate Guarantee given by GMR Infrastructure Limited (GIL) [Holding Company] to the bank facilities of the company (GETL). This corporate guarantee results in credit enhancement in the rating of the said bank facilities to IVR BBB- (CE)/ Stable Outlook [IVR Triple B Minus (Credit Enhancement) with Stable Outlook] against the unsupported rating of IVR BB; Stable (IVR Double B with Stable Outlook).



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Further, the rating continues to derive strength from support of GMR group, experienced management and long track record of operations and established relationship with stakeholders. The rating is however constrained by decline in operating income, low profitability margins, high gearing and weak debt protection metrics, exposure to counterparty risks & credit concentration of trade receivables, capped margins in power trading, Illiquidity risk and stressed financial risk profile of the group holding company.

Key Rating Sensitivities:

➤ **Upward Rating Factor:**

Overall improvement in debt protection metrics of GETL and/or improvement in financial performance of the guarantor

➤ **Downward Rating Factor:**

Decline in revenue and/or EBITDA margin leading to decline in debt protection metrics and/or decline in financial performance of the guarantor

Detailed Description of Key Rating Drivers

Key Rating Strengths

Support from GMR group

GETL is a subsidiary of GMR Infrastructure Limited (GIL), holding company for GMR group. By virtue of being part of GMR group (having a diverse business profile including energy), the company has the advantage of operational synergies. Also, unconditional and irrevocable corporate guarantee given by GIL to the bank facilities of the company indicates support from the GMR group.

Experienced management

The day to day operation of the company is managed by professionals having rich industry experience. Mr. A.K. Prusty, a Whole Time Director in the company has an experience of over three decades in the industry. There are other members in the Board (including two independent directors) who are highly qualified & experienced, adding credence & professionalism in the governance of the company.



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Long track record of operations and established relationship with stakeholders

GETL has been involved in the power trading business for more than a decade and over the years, established relationships with various market players. The company has maintained healthy relationship with state utilities and discoms.

Key Rating Weaknesses

Decline in operating income

The revenue from operations increased from INR 1419.93 Crore in FY17 to INR 1731 Crore in FY18, recording a growth of 22%. However, during the year FY19 and FY20, the decline in the revenue is seen due to reclassification of operating revenue on account of adoption of Ind-AS.

Low profitability margins

The profitability margins of the company are low. While EBITDA reduced in FY19, an improvement has been seen in FY20 from loss of INR 1.08 Crore in FY19 & profit of INR 6.85 Crore in Provisional FY20. Similarly, EBITDA margin rose to 1.88% in Provisional FY20 from (-0.29%) in FY19. The increase in EBITDA in FY20 was due to higher margin in bilateral contracts within state trades as well as enhanced trades on power exchanges coupled with energy banking contracts. The PAT margin stood low and rose slightly to 0.70% in Provisional FY20 from (-1.37%) in FY19.

High gearing and weak debt protection metrics

The overall gearing ratio of the Company is high on account of long term borrowings. The leverage ratios remained weak as at FY19. However, the ratios have marginally improved in FY20 due to positive EBITDA and PAT.

Exposure to counterparty risks & credit concentration of trade receivables

GETL is susceptible to the credit risk profiles of its customers, primarily State Power Utilities (SPUs). The company tries to mitigate counterparty risk by diversifying revenue profile across multiple buyers. Seasonal reversal (excess/deficit of power) of buy-and-sell positions of SPUs acts as a natural hedge to some extent. However, risk of delays and defaults in payment is a key sensitivity factor.



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Illiquidity risk

Shares of GMR Energy Limited (GEL) and GMR Airports Limited (GAL) are the primary security for the term loan taken by the company in FY18. The shares of both these companies are not listed and hence, there is an element of illiquidity.

Stressed financial risk profile of the group holding company

GIL (on a consolidated basis) continues to have a stressed financial risk profile reflected by low profitability and weak debt coverage matrices. The company has been reporting losses in the last three financial years, primarily driven by high interest cost (on account of high debt burden) and share of loss on impairment of investments in associates resulting in low debt service coverage indicators.

Analytical Approach & Applicable Criteria:

- Credit Enhancement (CE Rating):
Being the subsidiary of GMR Infrastructure Limited (GIL) and GIL has given corporate guarantee for the debt of GETL.
Unsupported Rating: Standalone
- Rating Methodology for Infrastructure Companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

The company is earning a low level of GCA and the same is expected to improve with an increase in scale of operation and level of margin. The long term debt is likely to reduce indicating lower debt servicing obligations. Further the support extended by the group acts as liquidity bulwark for the company. However, any liquidity mismatch is expected to be funded by the guarantor.



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About the Company

GMR Energy Trading Limited (GETL) is an unlisted public limited company incorporated in January 2008 with the objectives of trading in electricity across all segments of Indian power market. GETL is a subsidiary of GMR Infrastructure Limited (GIL), which holds ~67.86% shares of the company. The company is a category-1 power trading licensee issued by Central Electricity Regulation Commission which permits unlimited trading of power under the Electricity Act, 2003. The operation of the company is managed by professionals having rich industry experience. GETL is an active member of both power exchanges – Indian Energy Exchange (IEX) and Power Exchange India Ltd. (PXIL). During FY19-20 GETL traded more than 5,800 MUs and 1,89,970 RECs. The company has handled more than 140 clients on Power exchanges for sale/purchase of power.

Financials (Standalone)

For the year ended / As on	INR in Crore	
	31-Mar-19 Audited	31-Mar-20 Provisional
Total Operating Income (Net)	375.18	365.05
EBITDA	-1.08	6.85
PAT	-5.87	2.91
Total Debt	430.18	432.42
Tangible Net Worth	59.64	62.52
EBIDTA Margin (%)	-0.29	1.88
PAT Margin (%)	-1.37	0.70
Overall Gearing ratio (x)	7.21	6.92

Classification as per Infomerics' standards

The Company has adopted Ind-AS w.e.f. April 1, 2018.

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.



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Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating*	Date(s) & Rating(s) assigned in 2019-20 (April 16, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
Term Loan	Long Term	280.15	IVR BBB- (CE)/ Stable Outlook	--	--	--
Cash Credit	Long Term	10.00	IVR BBB- (CE)/ Stable Outlook	IVR BBB- (CE)/ Stable Outlook	--	--
Working Capital Demand Loan	Short Term	49.00 (reduced from INR 50)	IVR A3 (CE)	IVR A3 (CE)	--	--
Non-Fund based	Short Term	11.00 (reduced from INR 25)	IVR A3 (CE)	IVR A3 (CE)	--	--
Proposed Working Capital limit	Short Term	15.00	IVR A3 (CE)	--	--	--
	Total	365.15				

*CE rating fully backed by an unconditional and irrevocable Corporate Guarantee of GMR Infrastructure Limited.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Amount (INR Crore) (Santioned/ outstanding as on March 31 st , 2020)	Rating Assigned/ Outlook
Long Term Fund based – Term Loan	--	--	Upto March 2027**	280.15	IVR BBB- (CE)/ Stable Outlook
Long Term Fund based – Cash Credit	--	--	--	10.00	IVR BBB- (CE)/ Stable Outlook
Short Term Fund based – Working Capital Demand Loan	--	--	--	49.00 (reduced from INR 50)	IVR A3 (CE)
Short Term Non-Fund based	--	--	--	11.00 (reduced from INR 25)	IVR A3 (CE)
Proposed Short Term Working Capital limit	--	--	--	15.00	IVR A3 (CE)

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** post considering moratorium extended by RBI due to COVID pandemic.

Annexure II: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/GMR-Energy-Trading-16june20.pdf>