



Press Release

GMR Energy Trading Limited [GETL]

September 15, 2021

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating	Rating Action
1	<u>Long Term Fund based facilities</u> Term Loan	291.00 (Increased from 280.15)	IVR BBB- (CE)/ Credit Watch with Developing Implication [IVR Triple B Minus (Credit Enhancement) with Credit Watch with Developing Implication]	Rating placed on Credit Watch with Developing Implication
2	<u>Long Term Fund based facilities</u> Cash Credit	10.00	IVR BBB- (CE)/ Credit Watch with Developing Implication [IVR Triple B Minus (Credit Enhancement) with Credit Watch with Developing Implication]	Rating placed on Credit Watch with Developing Implication
3	<u>Short Term Fund based facilities</u> Working Capital Demand Loan	49.00	IVR A3 (CE)/ Credit Watch with Developing Implication [IVR A Three (Credit Enhancement) with Credit Watch with Developing Implication]	Rating placed on Credit Watch with Developing Implication
4	<u>Short Term Fund based facilities</u> Proposed Short Term limit	15.00	IVR A3 (CE)/ Credit Watch with Developing Implication [IVR A Three (Credit Enhancement) with Credit Watch with Developing Implication]	Rating placed on Credit Watch with Developing Implication
5	<u>Short Term Non-Fund based facilities</u> Bank Guarantee & Letter of Credit	11.00	IVR A3 (CE)/ Credit Watch with Developing Implication [IVR A Three (Credit Enhancement) with Credit Watch with Developing Implication]	Rating placed on Credit Watch with Developing Implication
	Total	376.00		

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

Details of facilities are in Annexure 1



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Detailed 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)/ Credit Watch with Developing Implication [IVR Triple B Minus (Credit Enhancement) with Credit Watch with Developing Implication] against the unsupported rating of IVR BB; Stable (IVR Double B with Stable Outlook).

Further, the rating continues to derive strength from support of GMR group, experienced management, long track record of operations and established relationship with stakeholders, significant improvement in revenues and operating profitability and improved gearing parameters. The rating is however constrained by exposure to counterparty risks & credit concentration of trade receivables, weak debt protection metrics, illiquidity risk and stressed financial risk profile of the group holding company.

Key Rating Sensitivities:

Upward Factors:

- Substantial & sustained improvement in the revenue & EBITDA margin of the Group while improving the debt protection metrics.

Downward Factors:

- Any further decline in revenue and/or EBITDA margin of the Group leading to decline in debt protection metrics.

List of Key Rating Drivers with Detailed Description

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.



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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.

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.

Significant improvement in revenues and operating profitability

The revenue from operations stood at similar levels in FY19 & FY20, i.e. INR 375.18 Crore in FY19 & INR 370.96 Crore in FY20. Thereafter, operating income increased to INR 653.34 Crore in FY21 recording an increase of 76%. This was due to an increase in sale of energy from INR 365.02 Crore in FY20 to INR 635.20 Crore in FY21. Also, there was compensation income of INR 11.53 Crore in FY21. The EBITDA improved from loss of INR 1.08 Crore in FY19 to profit of INR 12.77 Crore in FY20, further to profit of INR 28.07 Crore in FY21. Similarly, EBITDA margin also improved from 3.44% in FY20 to 4.30% in FY21. The increased & positive 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.

Improved gearing parameters

The overall gearing ratio of the Company improved from 7.12x as at FY20 to 4.84x as at FY21 on account of reduction in debt. The Total outside liabilities to Tangible Net Worth of the Company improved from 13.55x as at FY20 to 10.21x as at FY21.



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Key Rating Weaknesses

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.

Weak debt protection metrics

The debt coverage indicators have been weak on account of lower profits. However, the ratios have marginally improved in FY21.

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. 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 coverage indicators.

Analytical Approach:

Credit Enhancement (CE Rating): Being the subsidiary of GMR Infrastructure Limited (GIL), GIL has given corporate guarantee for the debt of GETL.

Unsupported rating: Standalone



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Applicable Criteria:

- Rating methodology for infrastructure companies
- Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Stretched

The company is earning a low level of GCA and the same is expected to increase with an increase in scale of operation and level of margin. The GCA improved from negative INR - 5.69 Crore in FY19 to positive INR 4.88 Crore in FY20, further to INR 6.23 Crore in FY21. The overall gearing ratio of the Company improved from 7.12x as at FY20 to 4.84x as at FY21 on account of reduction in debt. The average utilization of working capital limits remained low at 37.13% during the 12 months ended March 31, 2021. Further the support extended by the group acts as liquidity bulwark for the company. However, any liquidity mismatch will be funded by the guarantor.

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 FY20-21 GETL has traded almost 9,014 Mus.

Financials [GETL - Standalone]



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INR in Crore

For the year ended/ As on*	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	370.96	653.34
EBITDA	12.77	28.07
PAT	2.91	12.34
Total Debt	444.97	341.29
Tangible Net Worth	62.52	70.51
EBITDA margin (%)	3.44	4.30
PAT margin (%)	0.70	1.80
Overall Gearing Ratio (x)	7.12	4.84

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2021-22)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating*	Rating assigned in 2020-21 (16-Jun-20)	Rating assigned in 2019-20 (16-Apr-19)	Rating assigned in 2018-19
Term Loan	Long Term	291.00 (Increased from 280.15)	IVR BBB- (CE)/ Credit Watch with Developing Implication	IVR BBB- (CE)/ Stable	--	--
Cash Credit	Long Term	10.00	IVR BBB- (CE)/ Credit Watch with Developing Implication	IVR BBB- (CE)/ Stable	IVR BBB- (CE)/ Stable	--
Working Capital Demand Loan	Short Term	49.00	IVR A3 (CE)/ Credit Watch with Developing Implication	IVR A3 (CE)	IVR A3 (CE)	--
Proposed Working Capital limit	Short Term	15.00	IVR A3 (CE)/ Credit Watch with Developing Implication	IVR A3 (CE)	--	



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Bank Guarantee/ Letter of Credit	Short Term	11.00	IVR A3 (CE)/ Credit Watch with Developing Implication	IVR A3 (CE)	IVR A3 (CE)	--
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** CE rating fully backed by an unconditional and irrevocable Corporate Guarantee of GMR Infrastructure Limited.*

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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

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook*
1	<u>Long Term Fund based facilities</u> Term Loan	--	--	Upto Sep-2026	291.00 (Increased from 280.15)	IVR BBB- (CE)/ Credit Watch with Developing Implication
2	<u>Long Term Fund based facilities</u> Cash Credit	--	--	--	10.00	IVR BBB- (CE)/ Credit Watch with Developing Implication
3	<u>Short Term Fund based facilities</u> Working Capital Demand Loan	--	--	--	49.00	IVR A3 (CE)/ Credit Watch with Developing Implication
4	<u>Short Term Fund based facilities</u> Proposed Short Term limit	--	--	--	15.00	IVR A3 (CE)/ Credit Watch with Developing Implication
5	<u>Short Term Non-Fund based facilities</u> Bank Guarantee & Letter of Credit	--	--	--	11.00	IVR A3 (CE)/ Credit Watch with Developing Implication
	Total				376.00	

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

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/GMR-energy-lenders-15sep21.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable.



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Annexure 5: Complexity level of the rated Instruments/Facilities

Sr. No.	Instrument	Complexity Indicator
1	Term Loan	Simple
2	Cash Credit	Simple
3	Working Capital Demand Loan	Simple
4	Bank Guarantee	Simple
5	Letter of Credit	Simple

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.