Press Release

GMR Energy Trading Limited

April 16, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned*
1.	Long Term Fund Based Limits	10.00	IVR BBB- (SO)/Stable Outlook (IVR Triple B Minus [Structured Obligation] with Stable Outlook)
2.	Short Term Non-Fund Based Limits	25.00	IVR A3 (SO)/ (IVR A Three [Structured Obligation])
3.	Working Capital Demand Loan	50.00	IVR A3 (SO)/ (IVR A Three [Structured Obligation])
	Total	**85.00**	

**SO rating fully backed by an unconditional and irrevocable guarantee of GMR Infrastructure Limited*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from support from GMR group, healthy growth in operation, experienced management, long track record of operations and established relationship with stakeholders. The rating however is constrained by low profitability margins, high gearing and weak debt protection metrics, exposure to counterparty risks, capped margins in power trading and stressed financial risk profile of the group holding company. Ability to maintain margins in competitive environment, efficient management of counterparty risk, ability to generate cash flows to pare debt level and financial performance of the guarantor are the key rating sensitivities.

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.

Healthy growth in operation

GETL has witnessed an increase in scale of operation over the last three years. The company reported a healthy growth in operation with increase of about 24% in turnover in FY18 due to increase in the average market clearing price in FY18 over the last year.

Experienced management

The day to day operation of the company is managed by professionals having rich industry experience. The members in the Board (including two independent directors) 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. Over the years, the company has established relationships with various market players. The company has maintained healthy relationship with state utilities and other discoms.

Key Rating Weakness

Low profitability margins

The profitability margins of the company are low. Although the EBITDA margin marginally increased in FY18, it continues to remain on the lower side. Further, the PAT margin of the company continues to decline and was low in FY18 on account of higher interest cost.

High gearing and weak debt protection metrics

The overall gearing ratio was high as on March 31, 2018 on account of long term borrowing in FY18. Long term debt to equity ratio and other debt coverage metrics of the company were weak as on March 31, 2018. The interest coverage ratio stood at 1.02x for FY18 (FY17-1.37x).

Exposure to counterparty risks

GETL is susceptible to the credit risk profiles of its customers, primarily State Power Utilities (SPUs). The credit profile of most of the SPUs is weak to moderate. 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 payments is a key rating sensitivity factor.

Capped margins in power trading

Central Electricity Regulation Commission (CERC) is the regulator of power sector in India and the trading of power is a highly regularized business. CERC has capped short term trading margins at Rs.0.07 per kWh (for energy cost greater than Rs.3 per kWh) and Rs.0.04 per kWh (for energy cost at Rs.3 per kWh or lesser). The presence of such caps limits the trading margins of entities involved in power trading.

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 metrics. The company has reported book loss in the last three financial years, primarily driven by high interest cost (on account of high debt burden) and share of loss in associates resulting in low debt service coverage indicators.

Analytical Approach & Applicable Criteria

Consolidated

Rating Methodology for Infrastructure companies

Financial Ratios and Interpretation (Non-Financial Sector)

Liquidity

The company is earning a modest level GCA and the same is expected to increase with increase in scale of operation and level of margin, while the long term debt is likely to reduce indicating lower debt servicing obligations. These factors indicate a moderate degree of liquidity support to the company in meeting its debt obligations. Further the support extended by the group acts as liquidity bulwark for the company.

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). As on date the company has traded more than 5000 million units (MUs) power and 144,725 Renewable Energy Certificates (RECs). The company has more than 140 clients on power exchanges for sale/purchase of power.

Financials (Standalone) **(Rs. crores)**

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	1419.93	1759.77
EBITDA	23.83	30.12
PAT	4.43	2.47
Total Debt	133.54	441.46
Tangible Networth	63.03	65.51
EBITDA Margin (%)	1.68	1.71
PAT Margin (%)	0.31	0.14
Overall Gearing Ratio (x)	2.12	6.74

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limit - CC	Long Term	10.00	IVR BBB- (SO)/Stable Outlook	--	--	--

2.	Non Fund Based Limit – LC/BG	Short Term	25.00	IVR A3 (SO)	--	--	--
3.	Working Capital Demand Loan	Short Term	50.00	IVR A3 (SO)	--	--	--

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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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	--	--	--	10.00	IVR BBB- (SO)/Stable Outlook
Short Term Non Fund Based Limits – LC/BG	--	--	--	25.00	IVR A3 (SO)
Working Capital Demand Loan	--	--	--	50.00	IVR A3 (SO)