CG Power and Industrial Solutions Limited
Registered Office:
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Corporate Identity Number: L99999MH1937PLC002641

Smart solutions.
Strong relationships.

Our Ref: COSEC/268/2020-21

February 12, 2021

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 upgrades in credit rating under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 of CG Power and Industrial Solutions ("Company")

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 upgraded the Company's Long Term Issuer rating to 'IND AA-' from 'IND D' *(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 8.65	IND AA-/Stable	Assigned
2	Fund-based working capital limits	INR 5	IND AA-/Stable/IND A1+	Assigned
3	Non-fund-based working capital limits	INR 18	IND A1+	Assigned
4	Commercial papers (CPs) @*	INR 2.5	IND A1+	Assigned
5	Derivative Limits	INR 0.3	IND A1+	Assigned

@ *yet to be placed*
* *CPs will be carved out from the fund-based working capital limits.*

This is for your information and records.

Yours faithfully

For **CG Power and Industrial Solutions Limited**

CG Power and Industrial Solutions Limited Mumbai - 400

K. R. Viswanarayan
Company Secretary and Compliance Officer

Encl. as above

India Ratings & Research
A Fitch Group Company

India Ratings Upgrades CG Power and Industrial Solutions to 'IND AA-'/Stable; Assigns CPs 'IND A1+'

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FEB 2021

By Monil Furia

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 D'. 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	INR8.65	IND AA-/Stable	Assigned
Fund-based working capital limits	-	-	-	INR5	IND AA-/Stable/IND A1+	Assigned
Non-fund-based working capital limits	-		-	INR18	IND A1+	Assigned
Commercial papers (CPs) @*	-	-	-	INR2.5	IND A1+	Assigned
Derivative Limits	-	-	-	INR0.3	IND A1+	Assigned
Fund-based working capital limits**	-	-	-	INR11.8	WD	Withdrawn
Non-fund-based working capital limits**	-	-	-	INR19.27	WD	Withdrawn
Derivative limits**	-	-	-	INR0.66	WD	Withdrawn
Term loans**	-	-	FY22	INR11.32	WD	Withdrawn

@ yet to be placed
* CPs will be carved out from the fund-based working capital limits.

**Ind-Ra is no longer required to maintain the ratings as the agency has received a settlement-cum-release letter from the lenders. This is consistent with the Securities and Exchange Board of India's circular dated 31 March 2017 for credit rating agencies.

Analytical Approach: To arrive at the ratings, Ind-Ra has applied 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.

The upgrade reflects the successful implementation of a restructuring programme for CG Power, leading to the settlement of claims; a change in the company's promoter and the infusion of long-term funds in the company, which will result in an improvement in its credit profile. Ind-Ra has considered all of above factors as rationale for adopting an accelerated curing period for CG Power's credit rating.

KEY RATING DRIVERS

Implementation of Resolution Plan: The upgrade reflects a change in the company's ownership and managerial structure, infusion of long-term funds by TIIL and TIIL's commitment to Ind-Ra to provide a need-based financial support to CG Power in a timely manner. In August 2020, the parent won the bid to acquire a controlling stake of 58.6% in CG Power, whereby it would acquire 53.2% stake by infusing INR65 billion and an additional 5.4% stake over the next 18 months. TIIL infused INR6.875 billion of equity share capital (including advance payment of share warrants) in the company till December 2020 and has provided a corporate guarantee of INR13.65 billion for the fund-based limits secured by CG Power. Of this, INR6.5 billion was used to repay the existing lenders, INR2.15 billion for contingent liabilities and the balance for working capital purposes. The parent has also provided a letter of comfort to the new lender for the non-fund-based limits amounting to INR18 billion.

CG Power has reached a one-time settlement in December 2020 with its lenders through a master implementation-cum-compromise settlement agreement (settlement agreement), wherein the lenders agreed to settle the outstanding liabilities of INR21.6 billion at end-March 2020 for INR10 billion. The settlement agreement was executed using funds infused by the new promoters and the new facilities availed by the company. The restructured debt is settled in four parts: an upfront payment of INR6.5 billion, submission of a counter guarantee for the non-fund-based facilities extended by the lenders to the company, INR2.0 billion of unsecured unrated non-convertible debentures (NCDs), and recognition of debt of INR1.5 billion which will be settled using proceeds from sale of CG House property, and thus would result in an improvement in the credit profile. All the litigations and pending claims will be withdrawn as a part of the settlement.

The new debt availed by CG Power has two years of moratorium with a long maturity of seven years for the term loan and five years for the above mentioned NCDs. Interest payments are minimal in the first two years, leading to a significant improvement in CG Power's liquidity profile. TIIL has constituted a new board at CG Power, comprising members representing the new promoters, along with independent directors, and has also appointed a new management team. CG Power's business profile is robust with a consolidated orderbook of INR28.1 billion at end-December 2020. Ind-Ra expects the new capital structure and new management/promoters to support CG Power's operations to return to normal levels by FY23.
Strong Parentage: The ratings reflect CG Power's strong linkages with its new promoter TIIL (a Murugappa Group entity). CG Power's new reconstituted board is equally divided between representation from Murugappa Group as well as appointed independent directors. The group is actively supervising CG Power' operations post the acquisition. 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 former is expected to contribute significantly to the consolidated revenue in the medium term. TIIL's management has also informed Ind-Ra that it will continue to extend a need-based financial support in a timely manner to CG Power.

The corporate guarantee provided by the parent for the term loans and the fund-based limits of INR13.65 billion represents 39% of the total debt and 86% of the fund-based debt of CG Power. TIIL's commitment in CG Power in the form of equity investment and corporate guarantee represents 125% of its own FY20 shareholders equity.

Strong Promoter; Additional Financial Flexibility: Ind-Ra derives comfort from CG Power's new promoter (Murugappa Group) who has a demonstrated track record of successful value creation and turning around businesses, and extending continuous support to them. The agency takes comfort from the group's domain expertise and operational experience in managing engineering companies. CG Power benefits from the financial flexibility by being a part of the Murugappa Group.

Leading Position in Domestic Markets: TIIL and CG Power have market leading position in their respective business segments in India. The parent has a pan-India presence with strong relationships with auto original equipment manufacturers. TIIL has a diversified product portfolio ranging from tubes, body, chains, gears, among others, which has applications in auto, construction, engineering, industrials sectors, among others. CG Power has a strong presence in industrial and power systems. The acquisition will further help diversify TIIL's business from the auto business.

CG Power's operations likely to improve under the new management. The company's revenue declined to INR18.5 billion inn 9MFY21 (FY20: INR51.1 billion, 9MFY20: INR44.9 billion) and EBITDA to INR0.6 billion (loss of INR0.03 billion, INR1.0 billion). Its operations were impacted on account of the financial constraints caused by its high financial leverage and weak liquidity. The performance is likely to benefit from the financial support extended by the parent.

Deleveraging Likely by FY23: TIIL's consolidated net leverage (net debt/EBITDA) is likely to moderate in FY21 on a proforma basis including CG Power. Ind-Ra expects the same to decline considerably by FY23 on the back of a likely significant turnaround in CG Power. The consolidated EBITDA gross interest coverage (EBITDA/finance costs) is likely to be comfortable over the medium term.

CG Power's consolidated revenue from continuing operations stood at INR51.1 billion in FY20 (FY19: INR79.9 billion). With the completion of restructuring, the net leverage, at both standalone and consolidated levels, is likely to remain high before reducing to below 3.0x by FY23. This is on account of a likely low EBITDA in FY21, followed by a gradual recovery due to improving operating performance and a reduction in corporate overheads and legacy costs. Furthermore, Ind-Ra estimates the interest coverage to be healthy at above 3.0x for FY22-FY23 on account of the low interest outgo. A sustained recovery in the scale and the credit metrics will be important to ensure CG Power's strategic importance to TIIL, and hence will remain a key rating monitorable.

CG Power's standalone revenues from the continuing business stood at INR31.7 billion in FY20 (FY19: INR53.6 billion) while EBITDA at INR1.0 billion in FY20 (INR3.0 billion). Ind-Ra expects a performance improvement on account of the domestic focus of the management and new promoters

Liquidity Indicator – Adequate; Supported by Parent: The company's utilised 33% of its new non-fund-based limits on 15 December 2020. CG Power had not utilised the fund-based limits during the same period. Ind-Ra expects CG Power to have a minimal debt repayment obligation of INR5.4 billion over FY22-FY24. Its cash and cash equivalents stood at INR2.4 billion at end-1HFY21 (FYE20: INR1.8 billion). CG Power enjoys access to lenders at competitive terms on account of being a part of Murugappa group. The company has settled all its earlier dues to domestic lenders in the restructuring process. CG Power is liquidating majority of its overseas operations, except for the US and Sweden. Ind-Ra expects CG Power to incur capex of INR1.5 billion-2.0 billion over FY21-FY23.

Contingent Liabilities: CG Power's outstanding contingent liabilities continue to constrain the ratings. A majority of CG Power's overseas operations have been either discontinued or divested or under liquidation. The company will operate in only two overseas regions (the US and Sweden). It had extended corporate guarantees to its overseas subsidiaries historically, which have been invoked in certain cases. The management estimates the total exposure to the company of INR3.5 billion, which will be incurred over the next few years. Of which for the claims from HBE group, the management has notified Ind-Ra that the assets should be sufficient to cover the liabilities, while for the exposures in the Middle East and Singapore, the lenders have agreed to take a 80% haircut on the dues as part of the settlement and also includes the maximum tax liability expected by the management on conservative basis. Any higher than or lower than expected obligation crystallisation may impact the credit metrics materially.

CG Power has received the final report of investigation (earlier referred as Phase-II) from the appointed law firm. The board of directors at CG Power have confirmed that there are no additional financial implications over and above the disclosures already made by the company, except for potential non-compliances with certain statutory provisions of various laws and regulations basis the final report submitted to them. CG Power has various statutory claims (mainly INR6.0 billion income tax demand) in the appeal process; however, as per the management, "the demand is not sustainable and bad in law as the ultimate source of funds can be established". Also, there are ongoing investigations by special authority; the finalisation of which is pending.

RATING SENSITIVITIES

Positive: Strengthening of the company's linkages with TIIL and/or strengthening of TIIL's credit profile can lead to a positive rating action.

Negative: Deterioration in TIIL's credit profile or weakening of the company's linkages with TIIL will lead to a negative rating action.

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.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY21	FY20	FY19 (Restated)
Revenue (INR billion)	18.5	51.1	80.0
EBITDA (INR billion)	0.6	-0.0	2.7
EBITDA margin (%)	3.0	-0.1	3.3
Profit/loss after tax* (INR billion)	-6.9	-21.7	-5.1
Interest coverage (x)	0.3	-0.0	0.7
Cash (INR billion)	2.4#	1.8	2.0
Source: CG Power, Ind-Ra *includes exceptional items and losses from discontinued operations #Cash as on 1HFY21			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch					
	Rating Type	Rated Limits (billion)	Rating	18 November 2019	23 August 2019	5 August 2019	3 April 2019	22 October 2018	29 June 2017
Issuer rating	Long-term	-	IND AA-/Stable	IND D	IND B/Negative	IND BBB+/RWN	IND A+/RWN	IND AA-/Stable	IND AA/Negative
Term loans	Long-term	INR8.65	IND AA-/Stable	IND D	IND B/Negative	IND BBB+/RWN	IND A+/RWN	IND AA-/Stable	IND AA/Negative
Fund-based working capital limits	Long-term/Short-term	INR5	IND AA-/Stable/IND A1+	IND D	IND B/ Negative	IND BBB+/RWN	IND A+/RWN	IND AA-/Stable	IND AA/Negative
Non-fund-based working capital limits	Short-term	INR18	IND A1+	IND D	IND A4	IND A2/RWN	IND A1/RWN	IND A1+	IND A1+
CPs	Short-term	INR2.5	IND A1+	-	-	-	-	-	
Derivative limits	Short-term	INR0.3	IND A1+	IND D	IND A4	IND A2/RWN	IND	IND A1+	IND A1+

							A1/RWN		

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

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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.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage
Short-Term Ratings Criteria for Non-Financial Corporates

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