ICRA

December 11, 2017

# Triveni Turbine Limited

**Summary of rated instruments**

| Instrument* | Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| Fund-based facility | 29.50 | [ICRA]AA- (Stable); Reaffirmed |
| Non-fund based facility | 345.00 | [ICRA]A1+; Reaffirmed |
| **Total** | **374.50** | |

*Instrument details are provided in Annexure-1

**Rating action**

ICRA has reaffirmed long-term rating of [ICRA]AA- (pronounced ICRA double A minus) for the Rs. 29.50-crore[1] fund-based facilities and also reaffirmed short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the non-fund based bank facilities of Triveni Turbine Limited (TTL or the company)[2]. The outlook on the long-term rating is Stable.

**Rationale**

ICRA's rating reaffirmation factors in the market leadership position of the company in the manufacture of steam turbines of up to 30-MW segment size, its long experience in the industry, strong aftersales service network and technical and cost competitiveness. These strengths are further augmented by the association of the company with GE Oil and Gas in the 30.1–100 MW segment through the joint venture (JV), GE Triveni Limited (JV of GE and TTL). Despite stiff competition and weak export demand in FY2017, the company's performance has remained stable owing to its diversified geographical presence, good value engineering, faster turnaround to customers and constant focus on introducing new designs to better suit the evolving customer requirements. The lucrative aftermarket business too has contributed positively to the company's bottom line. These factors have resulted in healthy profitability and steady accruals. Low working capital intensity of operations, mainly driven by access to advances from customers, has resulted in debt-free capital structure and strong coverage indicators.

The ratings, however, are constrained by the sensitivity of the order book to domestic and global economic slowdown. Weak export order booking in the H1 FY2017 impacted revenues in Q1 FY2018. However, these concerns are mitigated by the company's diversified customer base. With a revival in demand, the export order booking has grown significantly (33% YoY) in H1 FY2018. Through the set up of subsidiaries in the UK and Dubai, and offices in South Africa, Indonesia, Thailand and Vietnam, the company has augmented its global reach and is now closer to its customers. This not only has given them increased assurance in terms of aftermarket delivery but has also increased the scope for incremental product orders. The company has established itself in 70 countries and is geared to gain traction from its current installed base going forward. Through its impetus on exports, the company has been able to desensitise its revenue growth from the domestic economic slowdown to an extent. ICRA notes the competition faced by the company from large players with global presence. Also, its ability to differentiate in terms of lesser delivery time and lower costing has been taken into consideration.

Going forward, the ability of the company to sustain its order booking in the international market will help it to achieve strong top-line growth. This in turn will percolate to the bottom-line as TTL continues to be debt free. Any revival in the domestic markets will give additional fillip to the company's earnings.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

**Key rating drivers**

**Credit strengths**

- **Leading position in manufacturing steam turbines up to 30-MW capacity** – Aided by strong execution capabilities and good value engineering, the company has been able to maintain its leading position in the domestic market with a share of ~60%. The domestic market now constitutes roughly half of the outstanding order book, resulting in a fairly diversified customer base.

- **Strong financial profile** – High value-additive nature of operations has been resulting in healthy profitability over the years. The company remains debt free and strong accruals ensure that it will continue to have a conservative capital structure.

- **Healthy liquidity profile** – Working capital requirements are partly funded by advances from customers, leading to a healthy liquidity profile for the company over the years. Increased net worth base also affords financial flexibility to it.

**Credit weaknesses**

- **Order booking and revenues remain sensitive to economic slowdowns** – The domestic market has slowed down considerably over the last four years and even export markets showed subdued demand growth in the previous year. However, TTL's growing export base has been supporting its portfolio and should help buffer the impact of any localised economic slowdowns.
- **Intense competition** – TTL competes with large players that benefit from operational and financial support from global parent companies. However, the company too has been able to compete with and gain market share globally. In addition, it has continued to maintain its dominant presence through experienced engineering and manufacturing capabilities, good coverage of aftersales services, and faster turnaround to its customers. These factors have helped the company thwart competition and preserve its margins.

- **Exposure to counterparty risk –** The company is vulnerable to counterparty credit risk due to exposure to capital intensive sectors like sugar, cement and textiles that have moderate credit profiles. Nonetheless, the risk is mitigated by favourable contractual terms that ensure upfront payment from customers. Also, TTL's extremely diversified customer base helps to reduce the risk.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

**Links to applicable criteria**
Corporate Credit Rating Methodology

**About the company**
TTL is a leading industrial steam turbine manufacturing company. It is primarily manufactures steam turbines of up to 30-MW capacity. It was a division of Triveni Engineering Industries Limited since 1970s and was demerged with effect from October 2010. Over the years, the company has completed more than 2,500 installations in the domestic market and in the export market. Its manufacturing plants are located in Sompura and Peenya in Bangalore.

In FY2017, the company reported an operating income (OI) of Rs. 744.61 crore and a net profit of Rs. 123.55 crore as against an OI of Rs. 712.93 crore and a net profit of Rs. 112.98 crore in FY2016.

**Key financial indicators**

| | FY2016 | FY2017 |
|---|---|---|
| Operating Income (Rs. crore) | 712.93 | 744.61 |
| PAT (Rs. crore) | 112.98 | 123.55 |
| OPBDIT/ OI (%) | 22.4% | 22.5% |
| RoCE (%) | 64.9% | 55.6% |
| | | |
| Total Debt/ TNW (times) | 0.00 | 0.00 |
| Total Debt/ OPBDIT (times) | 0.00 | 0.00 |
| Interest Coverage (times) | 73.6 | 95.4 |
| NWC/ OI (%) | 13.0% | 19.3% |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*
*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years**
**Table**

| S. No. | Instrument | Current Rating (FY2018) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2015 |
| | | | | | December 2017 | October 2016 | July 2015 | October 2014 |
| 1 | Fund-based Facility | Long Term | 29.50 | Nil | [ICRA] AA- (Stable) | [ICRA] AA- (Stable) | [ICRA] AA- (Stable) | [ICRA] AA- (Stable) |
| 2 | Non-fund Based Facility | Short Term | 345.00 | 141.4* | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ |

*as on July 31, 2017

**Complexity level of the rated instrument**
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1**
**Instrument Details**

| **Instrument** | **Date of Issuance / Sanction** | **Coupon Rate** | **Maturity Date** | **Amount Rated (Rs. crore)** | **Current Rating and Outlook** |
|---|---|---|---|---|---|
| Cash credit/Working Capital Demand Loan/Overdraft* | - | - | - | 29.50 | [ICRA]AA- (Stable) |
| Non-fund Based Facility | - | - | - | 345.00 | [ICRA]A1+ |

* Cash Credit limit of Rs. 12.7 crore, Working Capital Demand Loan of Rs 6.80 crore and Overdraft of Rs 10.00 crore
Source: the company

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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

ICRA

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