Triveni Turbine Limited

January 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	29.5	29.5	[ICRA]AA- (Stable); Reaffirmed
Non-fund Based-Working Capital Facilities	315.0	315.0	[ICRA]A1+; Reaffirmed
Non-fund Based-Proposed Facilities	30.0	30.0	[ICRA]A1+; Reaffirmed
Total	**374.5**	**374.5**	

*Instrument details are provided in Annexure-1

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 track record in the industry, strong aftersales service network as well as technical and cost competitiveness. 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 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 a debt-free capital structure and strong coverage indicators. The company has announced buyback of its shares (aggregate amount Rs. 100 crore), which will be funded through internal accruals. No reliance on borrowed funds reflects the strong cash flows available from operations. However, it will result in moderation of buffer available in liquidity once executed. Nevertheless, with no planned capital expenditure and favourable working capital intensity, the company's liquidity profile is expected to be comfortable.

The ratings, however, are constrained by the sensitivity of the order book to domestic and global economic slowdown. However, these concerns are mitigated by the company's diversified customer base. With a revival in demand, the domestic order intake has been significant in Q4 FY2018 and Q1 FY2019. 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.

Outlook: Stable

ICRA believes TTL will continue to benefit its increasing international presence which will desensitise its order intake from slowdown in any particular geography. The outlook may be revised to Positive if backed by strong order intake and the available unutilised capacity, the company is able to achieve substantial growth in revenues and profitability. The outlook may be revised to Negative if there is a sustained slowdown in the domestic and export markets which results in weak offtake and or deferred execution, thereby impacting the cash flows and profitability.

Key rating drivers

Credit strengths

Leading position in domestic market - Domestic industry for steam turbines, where TTL has more than 60% market share, continues to be impacted by the domestic economic slowdown, resulting in slowdown in new orders and execution of the existing ones. While the fundamental advantages of small-sized steam turbines (less than 30 MW) remain intact (as in captive power plants, good use of steam in the process and consequent integration, renewable power plants for biomass and solar energy), there has been deferment of orders due to the slowdown in the respective industries.

Increasing international presence - TTL has an export presence in over 70 countries around the world, while it has enquiries from over 130 countries. Its presence in South Asia, the Middle East and some African markets has been relatively longer. In the last few years, it has expanded its presence across markets like Europe and South America.

Focus on exports and refurbishing markets supports profitability - While TTL's operations were impacted by slowdown in the domestic market, this has been more than compensated by the increase in high margin after-market sales (where the company sells spares for its own and other turbines) as well as for export sales. TTL's after-market business was boosted by its relatively aggressive drive to expand its presence and the focus of various customers to refurbish their old equipment for better efficiency.

Strong order book position - Led by increased domestic order booking and steady export orders, the outstanding order book of the company has improved to Rs. 776 crore (as on September 30, 2018), the highest it has ever achieved.

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 challenges

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 TTL 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.

Liquidity position

The company's liquidity profile remains comfortable with strong operating cash flows, nil debt on books and unutilised working capital limit of Rs 29.5 crore as on March 31, 2018. The company has in the past funded its sizeable capital expenditure programme from internal accruals and plans to fund the current share buyback program from its internal accruals as well.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them

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 the 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 Bengaluru.

In FY2018, the company reported a net profit of Rs. 96.0 crore on an operating income (OI) of Rs. 751.1 crore compared with a net profit of Rs. 123.6 crore on an OI of Rs. 744.6 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	744.6	751.1
PAT (Rs. crore)	123.6	96.0
OPBDIT/OI (%)	22.5%	21.2%
RoCE (%)	55.6%	35.6%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	95.4	69.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 December 2017	Date & Rating in FY2017 October 2016	Date & Rating in FY2016 July 2015
1	Fund-based - Working Capital Facilities	Long Term	29.5	-	**[ICRA]AA- (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-fund Based- Working Capital Facilities	Short Term	315.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-fund Based- Proposed Facilities	Short Term	30.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - Working Capital Facilities	-	-	-	29.5	[ICRA]AA- (Stable)
NA	Non-fund Based-Working Capital Facilities	-	-	-	315.0	[ICRA]A1+
NA	Non-fund Based-Proposed Facilities	-	-	-	30.0	[ICRA]A1+

Source: Triveni Turbine Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Triveni Turbines Europe Private Limited	100.00%	Full Consolidation
Triveni Turbines DMCC	100.00%	Full Consolidation
Triveni Turbines Africa Pvt. Ltd.	100.00%	Full Consolidation
GE Triveni Limited	50.01%	Equity Method

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