February 21, 2023(Revised)

Andritz Hydro Private Limited: Ratings reaffirmed; outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund-based- Cash credit	78.00	128.00	[ICRA]A+; reaffirmed/assigned; outlook revised from Stable to Positive
Long term/Short term - Fund-based/Non-fund based facility	709.00	692.00	[ICRA]A+/[ICRA]A1; reaffirmed; outlook revised from Stable to Positive
Short term – Non-fund based facility	788.00	1330.00	[ICRA]A1; reaffirmed/assigned
Total	**1575.00**	**2150.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook to Positive factors in the substantial increase in order intake during CY2022 and a sizeable pipeline of orders under execution that would provide revenue visibility over the medium term. The revenue visibility remains healthy with an order backlog of Rs. 4,318 crore as of December 2022 i.e. 5.1 times FY2022 revenues, and expectations of a healthy order intake of nearly Rs. 3,000 crore in the current calendar year. ICRA notes that with its current order book and pipeline along with a demonstrated ability to get orders in the pumped storage segment and the increasing proportion of orders with price variation, the company is at an inflexion point of scaling up its revenues sizeably. Further, the increased pace of order execution and order inflow during the current fiscal may help improve the company's working capital intensity on the back of higher customer advances.

The rating reaffirmation factors in the strength that Andritz Hydro Private Limited (AHPL) derives from its parent, the Andritz Group, which has extensive experience in the execution of electromechanical and hydromechanical equipment globally. The ratings consider the track record of easy accessibility of the company to the technical expertise from the parent entity, besides extending corporate guarantee to the bank facilities availed by the company.

The rating also factors in the strong market position of the company, reflected in its healthy order book and pipeline coupled with company's ability to secure high-value orders in pumped storage segment from big market players as well as increasing orders with price variations. The presence of in-house manufacturing facilities, design and engineering strengths aided by technical support from parent has aided cost competitiveness in bidding for new projects. Additionally, ICRA factors in the financial flexibility enjoyed on account of the parent's strength as well as access to advances from select group companies operating under a common management. Its credit metrics are comfortable as majority of the debt availed by the company is in the form of working capital borrowings.

The ratings also note AHPL's comfortable liquidity position with healthy cushion available against the drawing power with the company being able to draw funds against the fixed deposits. The perspective of the hydropower segment remains healthy over the medium term with increasing focus on round-the-clock power generation coupled with the Government of India's focus on net zero carbon emission by 2070.

The ratings, however, remain constrained as the company's revenues are largely dependent on the timely execution of orders and the susceptibility of its profitability to the volatility in prices of raw materials. The large hydropower projects take around 3-4 years for complete execution and are subject to various geographical surprises, thus affecting timelines for the scheduled completion of the projects. With the increased order intake from PSP projects as well as inclusion of price variation clauses for many new orders, these risks are mitigated to an extent. Further, the high working capital intensity owing to elongated receivables and retention money, along with continuing high unbilled revenues resulted in higher working capital intensity of 48% in FY2022. Going forward, the working capital intensity is expected to moderate on the back of larger customer advances due to healthy order inflow. However, the high retention money requirement would result in higher blockage of working capital to certain extent. AHPL's order book size remains exposed to the business prospects of the hydropower segment—greenfield and rehabilitation projects. The ratings continue to be constrained by AHPL's exposure to execution risks inherent in hydropower projects as well as intense competition from domestic as well as global players with a local presence.

Key rating drivers and their description

Credit strengths

Strong parentage and support from Group- The Andritz Group, a leading supplier of hydropower equipment, has a global presence and an extensive experience in turnkey electromechanical equipment and services for hydropower plants, besides presence in paper and pulp as well as metals. AHPL has access to the Group's technical expertise and a large part of its borrowings is backed by corporate guarantee from the parent, besides access to mobilisation advances for projects from group companies. The Andritz Group operates in India through two entities in the hydropower segment, and one in the paper and separation business. Although AHPL undertakes EPC and manufacturing of critical components such as runners and turbines, its group company undertakes the operations and maintenance (O&M) of hydropower projects and enjoys healthy profitability metrics and substantial cash balances. AHPL enjoys financial flexibility by virtue of access to these funds at market-linked rates given the common management.

Dominant position in hydropower segment in India, aided by string manufacturing infrastructure-The company is present across all the phases of the value chain i.e. engineering, design, manufacturing and installation of critical electro mechanical equipment, and EPC of large as well as compact hydro projects as well as O&M services through its group company. Further, the presence of in-house manufacturing infrastructure as well as the parent's support of strong technical skills has aided the company's cost-competitive operations. This has resulted in continued robust order inflow and a multi-year high order book of Rs. 4,318 crore as on December 31, 2022.

The company has strengthened its market position through shortened project execution timelines for complex projects such as pump storage against the conventional hydro projects which has enabled the company to secure high-value projects repeatedly. The company's competitors in the domestic market comprise subsidiaries of global players like GE and Voith. However, in recent years, the company has cemented its market position, evident from the growing order book as well as sizeable orders in the pipeline which are under advanced stages of discussion.

Healthy order book position provides medium-term revenue visibility- AHPL's closing order book position is healthy at Rs. 4,318 crore as on December 31, 2022, resulting in closing order book/revenues at around 5.1 times in FY2022, which provides medium-term revenue visibility with 83% of the order book from the large hydro segment followed by the compact hydro and service rehabilitation. The robust order book is supported by healthy order intake of Rs. 1,789 crore in H1 FY2023 and further order intake of Rs. 293 crore in Q3 FY2023. The company further has over Rs. 1,500 crore in the pipeline which are in advanced stages of discussion, besides various other orders under discussion/finalisation. The existing order book as well as healthy order inflow expected provides revenue visibility for the business over the medium term.

Comfortable credit metrics and liquidity- AHPL has a healthy financial risk profile with net debt/ OPBITDA at 1.1 times as of March 2022 with its borrowings being largely working capital in nature. Majority of the debt availed by the company is against fixed deposits with banks that reduces the net interest outgo. The company's TOL/TNW at 1.6 times further moderated in FY2022 and with the reduction in net debt in FY2022, the net debt/OPBIDTA for the company improved to 1.1 times. The company's liquidity position remains comfortable with cash and bank balances of Rs. 39.7 crore as on September 30, 2022 and healthy cushion available in the fund-based working capital limits with average utilisation of 19% (for the past 12-month period ended December 2022).

Credit challenges

Lumpiness in revenues and volatility in profitability, subject to variations in raw material prices - AHPL's order book is impacted by the business prospects of the hydropower segment – greenfield and rehabilitation projects. AHPL's operating profit margins are susceptible to the challenges of timely execution of orders and volatility in prices of key raw materials, given the relatively long project execution cycle and fixed-price nature of some contracts. Though the new projects secured by the company have price variation clauses at present, the actual realisation of the price escalation can be a long-drawn process as it is subject to approvals.

High working capital intensity – Elongated receivable cycle along with continuing high unbilled revenues resulted in moderate working capital intensity at 48% in FY2022. The working capital intensity is expected to moderate over the near term because of the high amount of customer advances with the increase in order inflow. However, large retention money requirement would result in a blockage of working capital to a certain extent.

Exposed to execution risks and intense competition - AHPL is exposed to execution risks inherent in hydropower projects, especially during the preliminary stages, where a large part of the current order book is in nascent stages of execution. AHPL's exposure to intense competition from domestic as well as global players with a local presence could also have an adverse impact on its profitability metrics. However, the growing order book of the company demonstrates its competitive position in the market.

Liquidity position: Adequate

AHPL has an adequate liquidity profile, reflected in cash and bank balances of nearly Rs. 39.7 crore as on September 30, 2022 along with sufficient cushion available against the drawing power. However, the working capital cycle is longer due to the long-tenure projects and payments linked to milestones as well as approvals. Moreover, with sizeable amount being kept as retention money by its customers as per industry practices, the company depends on working capital borrowings. With the company's revenues are expected to scale up in FY2023-24, the working capital requirements are expected to increase which would be partly funded through customer advances, besides the available cushion and proposed plans of seeking enhancement in limits. The company had fixed deposits of Rs 173.4 crore as on that date, against which the company borrows for meeting its working capital requirements. Need-based inter-corporate borrowings from cash-rich sister concerns can also be availed if the need arises. Additionally, the company does not have any long-term debt and thus no repayment obligations.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a sustained expansion in the company's scale of operation and profits, supported by an increase in order book and order execution, along with an improvement in the cash conversion cycle. Any major improvement in the parent company's financial profile can also trigger a favourable rating outcome.

Negative factors – The outlook may be revised to Stable if the company's profitability and coverage indicators moderate as its revenues scale up. The ratings may be downgraded if there is a slowdown in order execution, resulting in a decline in revenues and profits, or any deterioration in the company's working capital cycle, weakening the liquidity. Any moderation in the credit profile of the parent or change in the support philosophy could also trigger a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Implicit support from Parent or Group](#)
Parent/Group Support	Operational and financial support from being part of the Andritz Group
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

AHPL designs, manufactures, services, erects and installs electro-mechanical and hydro-mechanical equipment for large hydro (LH) plants, large rehabilitation (LR) plants, service rehabilitation (SR) plants, compact hydro (CH) plants and combined cycle four plants. The company also manufactures hydro turbines, governing equipment, inlet butterfly valves, spherical valves and other related plant and equipment for all types of turbines. Over the last two years, AHPL has started manufacturing penstock and gates for hydropower plants and also ventured into the pump business. The manufacturing facilities of the company are situated at Mandideep (Madhya Pradesh) and Prithla (Haryana). The company is a subsidiary of Andritz Hydro Gmbh, Austria, which is a global supplier of turnkey electro-mechanical equipment and services for hydropower plants.

Key financial indicators

AHPL	FY2021 Audited	FY2022 Audited
Operating income (Rs. crore)	822.4	894.8
PAT (Rs. crore)	31.9	16.2
OPBDIT/OI (%)	10.0%	4.9%
PAT/OI (%)	3.9%	1.8%
Total outside liabilities/Tangible net worth (times)	1.8	1.6
Total debt/OPBDIT (times)	5.6	6.0
Interest coverage (times)	2.2	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Feb 21, 2023	Dec 24, 2021	Nov 11, 2020	Oct 26, 2020	Jul 25, 2019
1	**Fund based – Cash credit**	Long Term/	128.00	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	**Fund-based/Non-fund-based facility**	Long Term/ Short Term	692.00	-	[ICRA]A+ (Positive) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1
3	**Non-fund-based facility**	Short Term	1330.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Fund-based/Non-fund-based facility	Simple
Non-fund-based facility	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Bankers Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	35.00	[ICRA]A+ (Positive)
NA	Cash credit	-	-	-	37.00	[ICRA]A+ (Positive)
NA	Cash credit	-	-	-	56.00	[ICRA]A+ (Positive)
NA	Fund-based/Non-fund-based facility	-	-	-	225.00	[ICRA]A+ (Positive) / [ICRA]A1
NA	Fund-based/Non-fund-based facility	-	-	-	210.00	[ICRA]A+ (Positive) / [ICRA]A1
NA	Fund-based/Non-fund-based facility	-	-	-	100.00	[ICRA]A+ (Positive) / [ICRA]A1
NA	Fund-based/Non-fund-based facility	-	-	-	157.00	[ICRA]A+ (Positive) / [ICRA]A1
NA	Non-fund-based facility	-	-	-	410.00	[ICRA]A1
NA	Non-fund-based facility	-	-	-	70.00	[ICRA]A1
NA	Non-fund-based facility	-	-	-	140.00	[ICRA]A1
NA	Non-fund-based facility	-	-	-	160.00	[ICRA]A1
NA	Non-fund-based facility	-	-	-	38.00	[ICRA]A1
NA	Non-fund-based facility	-	-	-	100.00	[ICRA]A1
NA	Non-fund-based facility	-	-	-	412.00	[ICRA]A1

Source: *Andritz Hydro Private Limited*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Corrigendum

Document dated February 21, 2023 has been corrected with revisions as detailed below:

- Applicable rating methodology has been updated to include the policy on Implicit support from Parent or Group under analytical approach section.
- Parent/Group support has been updated under the analytical approach section and mentioned as Operational and financial support from being part of the Andritz Group.

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