July 29, 2024

Techno Process Equipments (India) Private Limited: Ratings reaffirmed; 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	6.50	0.00	-
Long term – Fund based – Cash credit, interchangeable limits^	0.00	(6.50)	[ICRA]BBB (Stable); reaffirmed
Short term – Non-fund based limits	63.50	85.00	[ICRA]A3+; reaffirmed/assigned for enhanced amount
Total	**70.00**	**85.00**	

**Instrument details are provided in Annexure-1; ^ Interchangeable with NFB Limits*

Rationale

The rating reaffirmation factors in the established track record of Techno Process Equipments (India) Private Limited (TPEIPL) in the fabricated process equipment business, being an empanelled supplier for the major refineries of the country, as well as its strong association with reputed EPC contractors. Further, the ratings consider its comfortable credit profile, evident from the low debt and strong debt coverage metrics.

The operating income grew around 47% in FY2024 to Rs. 145.7 crore, although it continues to be relatively moderate. The order book position remains comfortable at Rs. 155 crore as on date with an execution timeline of 1 year, providing near-to-medium-term revenue visibility. Moreover, its strong association with a reputed clientele base ensures repeat orders.

ICRA notes that the company's orders and revenue depend on the capital investments undertaken by the end-user industry and, thus, the revenue may be lumpy linked to the execution of such projects. Further, the company's profitability remains exposed to the adverse fluctuation in raw material prices as TPEIPL's contracts are fixed price in nature.

The ratings continue to be constrained by TPEIPL's exposure to intense competition from established domestic players. The ratings are also constrained by the elevated working capital intensity of the business, marked by sizeable revenue booking in the second half of the fiscal which translates into high utilisation of the working capital limits during that time. The ratings also factor in the high client concentration risks as more than 80% of the revenues in FY2024 was derived from the top five customers.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that TPEIPL's revenues and accruals will be supported by its healthy order book. Also, the company will continue to benefit from its established track record in the fabricated process equipment business.

Key rating drivers and their description

Credit strengths

Established track record in fabricated process equipment business – TPEIPL's primary focus has been to provide design and manufacturing services for pressure vessels to the major refineries of the country. Its scope of work ranges from the designing of the pressure vessels to suit the requirements set by the project proponents to the manufacturing of the vessels and the delivery to the project site. The company, supported by its history of successful operations since 1981, is an empanelled supplier for almost all the major refineries in the country and has a strong association with the big EPC contractors.

Comfortable credit profile, evident from low debt, strong debt coverage metrics and comfortable liquidity position – The company's gearing has historically remained below 0.5 times on the back of limited capex requirements, resulting in low external borrowings. The operating profitability remained healthy, leading to satisfactory debt coverage metrics. Its liquidity profile is supported by advances from customers, working capital limits of Rs. 6.5 crore and liquidity build-up in the first half of the year with major collections from customers.

Healthy order book along with reputed clientele – The company's reasonable order book of ~Rs. 155 crore as of April 2024 (i.e., 1.06 times of FY2024 revenues) provides near-to-medium term revenue visibility. The company has a reputed clientele, including major public sector undertakings (PSUs) in the oil and gas business. Most of these customers have a longstanding relationship with TPEIPL and, hence, provide repeat orders. It is an approved vendor for many leading EPC contactors of refineries. This enables the company to participate in the orders, which are given as a package to large contractors and cover a larger scope.

Credit challenges

Modest scale of operations – The company's operations are relatively modest compared to the other competitors in the process equipment business that may also limit its participation in certain large projects. TPEIPL is present in the category of vessels up to 850 MT, which covers most of the refinery requirements in India. However, the highest category of tonnage i.e. above 1,000 MT per vessel is controlled by the larger players, where the company does not have a presence. In FY2024, the company's scale of operations improved to Rs. 145.7 crore (Rs. 99.4 crore in FY2023), supported by increased order inflow and execution, though it continued to remain range-bound. Nevertheless, the company is expected to ramp up its operations in the current fiscal due to a healthy order inflow.

Strong competition from established domestic players – The award of orders from the target clientele is through the open tendering process. The process equipment industry is highly fragmented, exposing the company to intense competition and pricing pressures, especially with the company's scale remaining modest, constraining its bargaining power as well.

Profitability exposed to raw materials price fluctuations – The orders traditionally do not incorporate any price variation clauses, given the competitive nature of the industry. The company's profitability, therefore, remains exposed to any adverse fluctuations in the prices of raw materials. This risk is mitigated to an extent by – i) the general industry practice of incorporating a price cushion while bidding to meet any increase in raw material costs, and ii) the company's policy of fixing the procurement for most of the raw materials at the time of receiving the letter of intent. However, the pressure on profits persists due to the relatively long execution cycle and the modest scale of operations, especially at a time metal prices are rising.

Elevated working capital intensity of business- The company's NWC/OI remained elevated at 65% in FY2024 (72% in FY2023), which is partly on account of higher sales in H2 of each fiscal. The debtor days are high due to the delays that may result from customer inspections as well as the longer defect liability period, besides the retention money (typically amounting to ~10% of the contract value) provided in the PSUs orders. Any elongation in the receivable period or a further inventory build-up may lead to a further strain on the working capital profile and, hence, will remain a key monitorable.

High client concentration- The company's customer profile remains highly concentrated with more than 80% of the revenue being derived from the top five customers.

Liquidity position: Adequate

TPEIPL liquidity profile remained adequate, supported by healthy profitability and comfortable cash accruals. The company's cash flows are expected to be comfortable as there are no significant capex plans or long-term debt repayment obligations, though the working capital intensity remains elevated.

Rating sensitivities

Positive factors – ICRA could upgrade TPEIPL's ratings if the company is able to significantly scale up its operations while maintaining healthy profitability, debt metrics and liquidity.

Negative factors –Pressure on the ratings could arise if the scale of operations and/or profitability declines. A stretched working capital cycle impacting the cash flows or large LD claims affecting the profitability could be the other negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

About the company

TPEIPL was established in 1981 by Mr. Ajit Singh. The company is involved in the fabrication and manufacturing of heat exchangers, pressure vessels, reactors, columns, etc., and site erection and installation of the same. Its major customers are reputed EPC companies as well as public sector undertakings in the oil and gas sector. The company's fabrication works are located at MIDC-Rabale (Navi Mumbai), MIDC-Ambarnath (Raigad) and Dahej (Gujarat).

Key financial indicators

	FY2023	FY2024*
Operating income (Rs. crore)	99.4	145.7
PAT (Rs. crore)	12.4	18.0
OPBDIT/OI (%)	21.5%	20.2%
PAT/OI (%)	12.5%	12.3%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Net debt/OPBDIT (times)	0.4	0.3
Interest coverage (times)	7.2	10.4

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 29, 2024	Apr 28, 2023	-	Jan 31, 2022
1	Fund-based – Cash credit	Long term	0.00	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Interchangeable limits^	Long term	(6.50)	[ICRA]BBB (Stable)	-	-	-
3	Non-fund based facility	Short term	85.00	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3+

^ Interchangeable with NFB Limits

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – Fund-based - Interchangeable	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Cash credit interchangeable**	NA	NA	NA	(6.50)	[ICRA]BBB (Stable)
NA	**Non-fund based facility**	NA	NA	NA	85.00	[ICRA]A3+

Source: *Company*

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

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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91-124-4545322
prashant.vaisht@icraindia.com

Ankit Jain
+91-124-4545865
ankit.jain@icraindia.com

Harshita Singh
+91-124-4545306
harshita.singh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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 Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches