September 10, 2024

Turbo Energy Private Limited: [ICRA]AA(Stable) / [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based limits – Term loan	80.63	[ICRA]AA (Stable); assigned
Long term fund based limits – WC facilities	70.00	[ICRA]AA (Stable); assigned
Short term fund based limits – WC facilities	90.00	[ICRA]A1+; assigned
Short term non-fund based limits – LC/BG	30.00	[ICRA]A1+; assigned
Short term non-fund based limits – Sublimit	(25.00)	[ICRA]A1+; assigned
Long term/short term – unallocated	19.37	[ICRA]AA (Stable)/ [ICRA]A1+; assigned
Total	290.00	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to the bank facilities of Turbo Energy Private Limited (TEPL/the company) factor in the company's strong financial risk profile with strong capital structure, coverage metrics and liquidity position, and expected sustenance of the same in the near to medium term. The ratings also factor in the company's established market position in the domestic turbochargers segment and its reputed client profile comprising several PV and CV OEMs. TEPL derives technological and operational flexibility from BorgWarner Inc. and has strong financial flexibility stemming from being part of the T S Santhanam faction (TSF) of the larger TVS Group of Companies –an established name in the domestic auto ancillary industry. TSF Group companies – Brakes India Private Limited and Sundaram Finance Holdings Limited – each hold 32.0% stake in the company while BorgWarner Turbo Systems Worldwide Headquarters GmbH holds 31.6% stake in the company.

The company has healthy scale of operations and reported an operating income of Rs. 2,982.6 crore in FY2024, representing a CAGR of 32.8% for the period FY2021 to FY2024. The revenue growth was aided by healthy increase in turbocharger volumes across vehicle segments partly aided by increase in penetration of turbochargers in petrol and CNG powertrains in PVs in the last few years, and higher content per vehicle. This apart, the periodical rise in the share of business with top customers also supported the revenue growth. Despite the drop in the operating profit margin (OPM) to 11.8% in FY2024[1] from 13.3% in FY2021, partly stemming from inadequate compensation of cost increases from the OEMs, the company remains net debt negative with healthy cash and liquid investments of Rs. 1,032.8 crore as on March 31, 2024, supported by modest capex and healthy accruals over the years. This has resulted in strong capital structure and coverage metrics, with gearing of 0.1 times as on March 31, 2024, and a debt service coverage ratio (DSCR) of 5.7 times for FY2024. With no major debt funded capex going forward, ICRA expects the company's capital structure, coverage metrics and liquidity position to remain strong over the medium term.

However, the ratings are constrained by the company's revenue concentration in diesel powertrain and with its top 5 customers, and risk from electrification. The company derived 86.4% of its sales from the diesel segment in FY2024, exposing it to risks arising from a gradual reduction in proportion of diesel vehicles, in the light of regulatory and voluntary measures undertaken for automobile emission reduction. ICRA, however, notes that proportion of revenues for TEPL from turbochargers supplied for vehicles using diesel powertrains has declined to 86.4% in FY2024 from 98.1% in FY2020, with increase in penetration of turbochargers in petrol and CNG powertrains for passenger vehicles (PVs) in the last few years, after the implementation of BS VI norms in April 2020. Further, the move towards electrification of automobiles, particularly in the PV

[1] *OPM adjusted for trading of components stood at 13.1% for FY2024*

segment, could impact the company's revenues over the medium to long-term owing to absence of turbochargers in EVs. However, the company has developed new products such as e-blower and e-compressor for non-auto applications like sewage / water treatment plants and cold storage and is in the process of scaling up revenues from the same. Also, the electrification in PV and CVs is expected to only be gradual. This apart, TEPL is working with OEMs to develop turbochargers for hydrogen fuel-cell vehicles. TEPL derived around 60% of its revenues from the top 5 customers in FY2022-FY2024, although it has reduced from 80% in FY2018. This exposes the company's revenues to volatility arising from any slowdown in orders from its prime customers.

The stable outlook on the company's long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its strong debt metrics, liquidity and healthy market position.

Key rating drivers and their description

Credit strengths

Strong financial risk profile – The company has healthy scale of operations and reported an operating income of Rs. 2,982.6 crore in FY2024, representing a CAGR of 32.8% for the period FY2021 to FY2024. The revenue growth was aided by healthy increase in turbocharger volumes across vehicle segments partly aided by increase in penetration of turbochargers in petrol and CNG powertrains in PVs in the last few years, and higher content per vehicle. This apart, the periodical rise in the share of business with top customers supported the overall growth for the company. Despite the drop in the operating profit margin (OPM) to 11.8% in FY2024[2] from 13.3% in FY2021, partly stemming from inadequate compensation of cost increases from the OEMs, the company remains net debt negative with healthy cash and liquid investments of Rs. 1,032.8 crore as on March 31, 2024, supported by modest capex and healthy accruals over the years. This has resulted in strong capital structure and coverage metrics, with gearing of 0.1 times as on March 31, 2024, and a debt service coverage ratio (DSCR) of 5.7 times for FY2024. With no major debt funded capex going forward, ICRA expects the company's capital structure, coverage metrics and liquidity position to remain strong over the medium term.

Reputed client profile and established market position – The company's clientele includes reputed PV and CV OEMs such as Hyundai Motor India Limited, Tata Motors Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+), Ashok Leyland Limited (rated [ICRA]AA (Stable)/[ICRA]A1+), and Mahindra & Mahindra Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) among others. TEPL enjoys an established market position in the domestic turbochargers market with a market share of around 65% in FY2024 and is the sole supplier of its products to some of its customers. The company has had repeat orders and periodic increase in the share of business with customers over the years. This, along with anticipated increase in turbocharger penetration in PV, especially in PV and CNG segments, would support TEPL's growth going forward.

Technological and operational flexibility from BorgWarner Inc.; strong financial flexibility from being part of the T S Santhanam Group – TEPL derives technological and operational flexibility from BorgWarner Inc., which holds 31.6% in the company. BorgWarner Inc. is a reputed player in the global turbocharger market and provides TEPL with periodic technological assistance, which has contributed to market share gains and new business wins for the company. This apart, the company also imports some of its raw materials from BorgWarner and its affiliates and in turn, supplies components to its Group companies, for usage in its turbochargers. TEPL enjoys strong financial flexibility and lender/investor comfort by belonging to T S Santhanam Group (a faction of the larger TVS Group of Companies –an established name in the domestic auto ancillary industry). TSF Group companies – Brakes India Private Limited and Sundaram Finance Holdings Limited – each hold 32.0% stake in the company.

[2] OPM adjusted for trading of components stood at 13.1% for FY2024

Credit challenges

Revenue concentration with the diesel powertrain – The company derived 86.4% of its sales from the diesel segment in FY2024, exposing it to risks arising from gradual reduction in proportion of diesel vehicles, in the light of regulatory and voluntary measures undertaken for automobile emission reduction. However, ICRA notes that proportion of revenues for TEPL from turbochargers supplied for vehicles using diesel powertrains has declined from 98.1% in FY2020, with increase in penetration of turbochargers in petrol and CNG powertrains in PVs in the last few years, after the implementation of BS VI norms in April 2020. Further increase in turbocharger penetration in petrol and CNG PVs are likely to support revenues going forward.

Exposed to cyclicality of the automotive industry; impending electrification may impact revenues – TEPL, being a tier-I auto component supplier, is exposed to the cyclicality inherent to the automobile industry. Further, the move towards electrification of automobiles, particularly in the PV segment, could impact the company's revenues over the medium to long-term due to the absence of turbochargers in EVs. However, the company has developed new products such as e-blower and e-compressor for non-auto applications like sewage / water treatment plants and cold storage and is in the process of scaling up revenues from the same. Also, the electrification in PV and CVs is expected to only be gradual. This apart, TEPL is working with OEMs to develop turbochargers for hydrogen fuel-cell vehicles.

Relatively high customer concentration – The company derived around 60% of its revenues from the top 5 customers in FY2022-FY2024, although it has reduced from 80% in FY2018. This exposes the company's revenues to volatility arising from any slowdown in orders from its prime customers. However, the company's established market position in the domestic turbocharger industry, its long-standing relationship with reputed OEMs, its history of receiving repeat orders from existing customers, and expansion in customer base and share of business over the years mitigates the risk to an extent.

Liquidity position: Strong

TEPL's liquidity position is strong with free cash and liquid investments of Rs. 1,032.8 crore and undrawn working capital lines of Rs. 80.0 crore as on March 31, 2024. The company's average fund based working capital utilisation for FY2024 stood at 50% of the sanctioned limits. As against these sources of cash, the company has principal repayment obligations of Rs. 40.3 crore each in FY2025 and FY2026, for existing loans. Further, the company has annual capex plans of Rs. 70.0-80.0 crore in FY2025-FY2027 towards maintenance, new product development and capacity expansion, which is likely to be funded through internal accruals. Overall, ICRA expects TEPL to be able to meet its medium-term commitments through internal sources of funds and yet be left with sufficient cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade TEPL's rating if the company demonstrates significant growth in its scale of operations and profitability on a sustained basis, along with material product and customer diversification.

Negative factors – Pressure on TEPL's rating could arise if the company's gross debt levels increase significantly, resulting in deterioration of total debt/OPBITDA over 1.5 times on a sustained basis. Any significant and sustained decrease in free cash and liquid investments stemming from higher dividend payout or other reasons could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TEPL. Details are provided in Annexure-II.

About the company

TEPL is a leading player in the turbochargers for the automotive and industrial applications. The company derived 86.4% of its revenues from the diesel vehicles and the remaining from the petrol and CNG powertrains. In terms of vehicle segment, PVs contributed 54% of its revenues in FY2024. The company largely caters to the domestic market, with exports of components to BorgWarner and its affiliates, accounting for 12.5% of revenues in FY2024. TEPL is part of the T S Santhanam Group (a faction of the larger TVS Group of Companies –an established name in the domestic auto ancillary industry), with Brakes India Private Limited and Sundaram Finance Holdings Limited each hold 32.0% stake in the company. BorgWarner Inc., a reputed global player in the turbocharger segment, holds 31.6% stake in the company. TEPL has three manufacturing units – two in Chennai and one in Baroda (Gujarat) – with an annual capacity of 2.0 million units.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	2,388.5	2,982.6
PAT	229.9	265.2
OPBDIT/OI	13.8%	11.8%
PAT/OI	9.6%	8.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.8	0.6
Interest coverage (times)	51.8	48.4

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; total debt includes lease liabilities; PAT excludes profit from associates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years					
		Amount Rated (Rs. crore)	Sept 10, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based limits – Term loan	Long term	80.63	[ICRA]AA (Stable)	-	-	-	-	-	-
Fund based limits – WC facilities	Long term	70.00	[ICRA]AA (Stable)	-	-	-	-	-	-
Fund based limits – WC facilities	Short term	90.00	[ICRA]A1+	-	-	-	-	-	-
Non-fund based limits – LC/BG	Short term	30.00	[ICRA]A1+	-	-	-	-	-	-
Non-fund based limits – Sublimit	Short term	(25.00)	[ICRA]A1+	-	-	-	-	-	-
Unallocated	Long term /Short term	19.37	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based limits – Term loan	Very Simple
Long term fund based limits – WC facilities	Simple
Short term fund based limits – WC facilities	Simple
Short term non-fund based limits – LC/BG	Very simple
Short term non-fund based limits – Sublimit	Very simple
Long term/short term – Unallocated	Not applicable

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term fund based limits – Term loan**	NA	NA	NA	80.63	[ICRA]AA (Stable)
NA	**Long term fund based limits – WC facilities**	NA	NA	NA	70.00	[ICRA]AA (Stable)
NA	**Short term fund based limits – WC facilities**	NA	NA	NA	90.00	[ICRA]A1+
NA	**Short term non-fund based limits – LC/BG**	NA	NA	NA	30.00	[ICRA]A1+
NA	**Short term non-fund based limits – Sublimit**	NA	NA	NA	(25.00)	[ICRA]A1+
NA	**Long term/short term – Unallocated**	NA	NA	NA	19.37	[ICRA]AA (Stable) / [ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Turbo Energy Germany GmbH	100.0%	Full consolidation

Source: Company

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About ICRA Limited:

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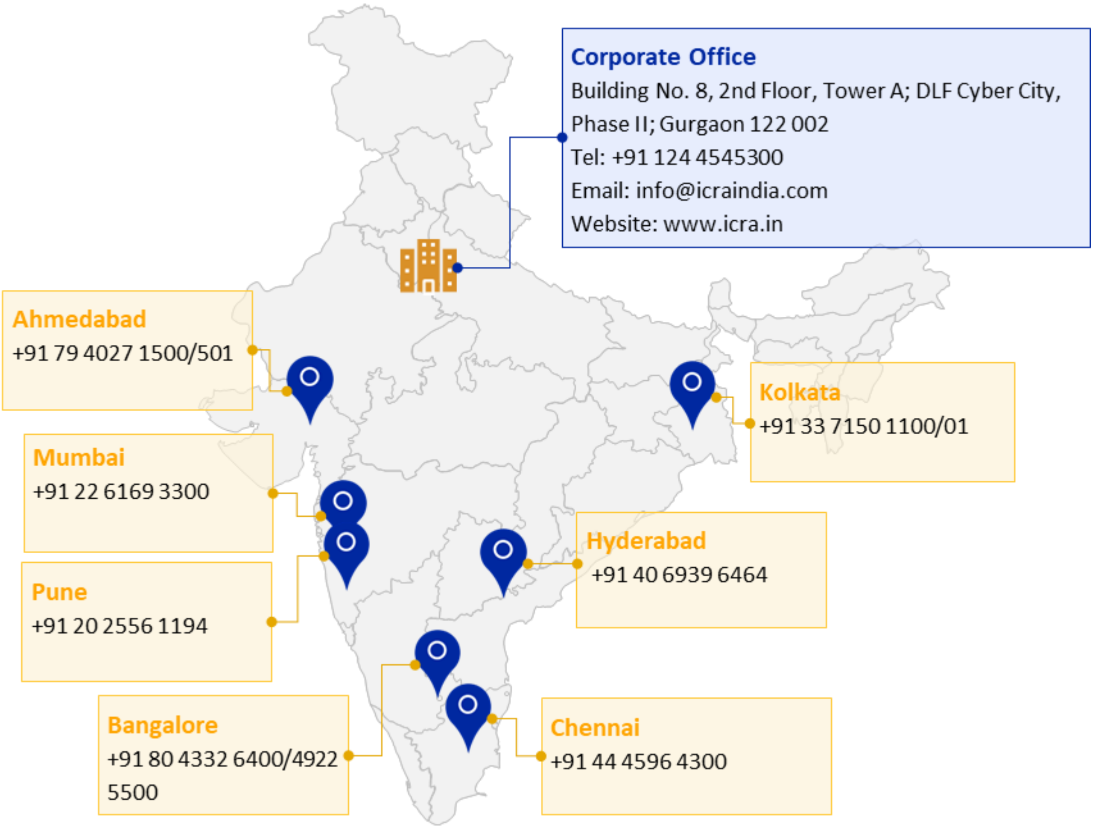

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