January 09, 2025

TEMA 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
Fund-based limits – Cash credit	52.50	52.00	[ICRA]A- (Stable); reaffirmed
Non-fund based limits	375.00	589.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed & assigned for enhanced amount
Derivative limit	8.82	9.00	[ICRA]A2+; reaffirmed & assigned for enhanced amount
Unallocated	0.34	0.00	-
Total	**436.66**	**650.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in TEMA India Private Limited's (TIPL or company) healthy financial risk profile. The revenues and profitability witnessed improvement in 8MFY2025 and the same is expected to sustain going forward. The revenues grew to Rs. 346.5 crore in 8M FY2025 vis-à-vis ~Rs. 398 crore in FY2024. The profitability improved to 28.6% in the same period from 22.3% in FY2024, owing to an increased scale along with a higher mix of margin-accretive orders. The capital structure remains comfortable with gearing of 0.01 times as on November 30, 2024. The coverage metrics have also been healthy, with interest coverage of 13.6 times and total debt/OPBDITA of 0.01 times in 8M FY2025. The leverage and coverage metrics are expected to remain comfortable, going forward.

The company had a strong outstanding order book of Rs. 657 crore as on November 30, 2024, providing healthy revenue visibility for the near to medium term. TIPL has won sizeable orders from floating production storage and offloading (FPSO) vessels/equipment (exports) and nuclear power plants and has a strong bid pipeline in these segments. These orders are expected to increase TIPL's penetration in the end-user segments as well as expand its product profile. The order book is moderately diversified with FPSO at 35%, oil & gas at (16%; both domestic and exports), nuclear (23%), chemicals and fertilisers (25%; both domestic and exports), and others/power comprising the balance 2% of the order book. The capital structure remains comfortable.

The ratings continue to factor in the company's established position as an equipment vendor of shell and tube heat exchangers, its reputed customer profile and the technical expertise of the promoter group. The ratings also consider the healthy demand prospects for heat exchangers and pressure vessels, primarily from the downstream oil and gas sector and FPSO vessels, though the geo-political uncertainties remain moderately high.

The ratings remain constrained by the profitability being exposed to commodity prices as majority of equipment supply contracts are fixed price in nature. The fluctuating international prices of raw materials like steel, inconel and titanium further exert pressure on the company's profitability. However, TIPL enters into raw material supply orders immediately after receiving the work orders to cover itself from any significant price fluctuation risk. Further, the orders in the nuclear segment have a price-escalation clause which provides some comfort. TIPL's revenue growth also remains linked to the capex plans of the end-user industries and any sluggishness in investments may moderate the company's order inflows. Nonetheless, the risks are mitigated to some extent by the company's track record of supplies to global oil and gas as well as chemical and fertiliser companies that partially insulates it from a slowdown in any particular geography or end-user segment. Also, the ratings factor in the high working capital cycle owing to the high debtor and inventory days, given the nature of TIPL's operations, though the same has witnessed significant improvement in FY2024 due to sizeable customer advances in FY2024.

TIPL undertook a share buyback of Rs. 12.00 crore in FY2024. ICRA notes that any further sizeable share buybacks over the medium term having an impact on the company's credit profile will remain a key monitorable.

The Stable outlook on the rating reflects ICRA's opinion that TIPL's revenues and cash accruals will be supported by its comfortable order inflow and execution with an expanded product profile and ability to address incremental applications in the end-user segments. Also, the company will continue to benefit from its approved vendor status with leading global EPC contractors and its strong product profile, with diversification in the end-user industries.

Key rating drivers and their description

Credit strengths

Established position as equipment vendor for shell and tube heat exchangers – TIPL is an established equipment vendor and features in the approved vendor list of leading global EPC contractors. The company has a reputed customer profile and has established relationships with its key customers. The company has demonstrated the supply of comprehensive technology-intensive tailormade products across multiple end-user industries, deploying diverse metallurgies (usage of materials such as inconel and titanium).

Healthy order book position – The company had a strong order book of Rs. 657 crore as on November 30, 2024, providing healthy revenue visibility for the near to medium term. Besides, it has a strong bid pipeline. The current order book is moderately diversified across end-user segments with FPSO at 35%, followed by oil & gas (16%; both domestic and exports), nuclear (23%), chemicals and fertilisers (25%) and others/power comprising the balance 2% of the order book. The company is focusing on diversifying its end-user industries, with increasing global and domestic FPSO and clean/bio-fuel opportunities, in-house R&D capabilities, growing market penetration and capabilities to deliver comprehensive high-tech tailormade products.

ICRA notes there has been a favourable shift in the quality of TIPL's order book with the recent orders from the nuclear sector where the equipment required to be supplied is different from the heat exchangers, thus diversifying its product profile. However, timely execution remains critical as there are some orders from new business segments the company has started catering to. Further, a timely receipt of regulatory approvals poses a challenge for the pending order book to get translated into revenues and remains a key rating sensitivity.

Improved financial risk profile with comfortable capital structure – The revenues were healthy in 8M FY2025 and the profitability improved to 28.6% from 22.3% in FY2024, owing to the increased scale and a higher mix of margin-accretive orders. TIPL has a comfortable capital structure due to low dependence on external borrowings, which are largely working capital borrowings. The gearing was 0.01 times as on November 30, 2024. In 8M FY2025, the coverage indicators improved with an interest coverage of 13.6 times and TD/OPBDITA of 0.01 times compared with 7.6 times and 0.2 times, respectively, in FY2024.

The advances from customers were at ~Rs. 194 crore as of March 2024 against ~Rs. 46 crore in the previous year. The advances are expected to reduce, going forward. TIPL is expected to generate stable cash flows in the coming years as the revenue scales up with the increasing order book. The expected revenue growth, supported by a favourable order mix, may keep the company's incremental reliance on debt under check and its capitalisation and coverage metrics may improve.

Healthy demand prospects – The demand prospects for the company's primary product, i.e., heat exchangers, are driven by planned capacity expansions in the chemical, fertiliser and downstream oil and gas sectors (including FPSO and biofuels). In addition, the diversification into other verticals such as the orders from the nuclear sector for titanium and stainless-steel frames, and special distillation columns, augurs well for its business prospects. ICRA notes that TIPL holds an India patent for the shrink ring technology, which plays a critical role in withstanding extreme pressures and temperatures, crucial for refining renewable fuels.

Well-positioned to cater to expanding global opportunities - TEMA is now catering to diverse end-use industries such as refineries, LNG, FPSO, biofuels, petrochem, specialty chemicals, fertilisers, thermal and nuclear power. The company's products entail critical technology, which, coupled with the ability to offer competitive pricing, has aided higher export orders.

This is also evident from the changing geographical mix of the order book with exports constituting ~60% as on November 30, 2024 vis-à-vis 66% as of March 2024. Further, better payment terms in the export orders, like higher customer advances and nil/lower retention money, and a meaningful capex recovery in the global market are supporting the order book. Hence, the order book is expected to be skewed towards exports with emerging opportunities in the clean fuel, waste-to-energy and FPSO segments. In the domestic market, TIPL is likely to benefit from the tailwinds in the Indian nuclear and chemical industries. The implementation of stricter emission standards has led to refinery upgrades in the US, Canada and APAC. India and China have also announced the implementation of higher fuel standards, which can potentially lead to higher order inflows over the medium term.

Credit challenges

Profitability exposed to volatility in prices of key raw materials and intense competition – Raw material cost forms ~60% of TIPL's operating income. Hence, any adverse fluctuation in the cost of raw materials would impact the company's operating profitability as its equipment supply contracts are fixed price in nature. On the back of a long manufacturing cycle, the company makes efforts to enter into back-to-back fixed-price contracts for major raw materials, typically within one to two months from the award of an order, which partly mitigates this risk. Further, the orders are generally awarded by the target clientele through an open tendering process. The process equipment industry is highly fragmented, which exposes the company to intense competition from domestic and international players and may induce pricing pressures.

Lumpiness in revenues and order booking as these are dependent on capex cycle of end-user industries – The company's order book and, in turn, the revenue growth depends on the capex plans of the power, nuclear, fertiliser and oil and gas sectors, which are its key demand drivers. Any slowdown in investments by these sectors directly impacts TIPL's order booking, as had been the case between FY2018 and FY2022, wherein the order inflow was range-bound. However, it witnessed a significant uptick in FY2023 but moderated in FY2024 (increased order inflow expected in FY2025). The current diversified order book along with increased focus towards the chemicals, nuclear and the renewable power segments and the technology tie-ups, partially mitigate this risk.

Working capital-intensive nature of operations – The business is working capital intensive in nature. The company had high debtor and inventory days (117 and 198, respectively, in FY2024), given the nature of its operations, supported to some extent by the high creditor days (215 in FY2024) and sufficient customer advances. The inventory levels have been historically high owing to the lengthy order execution cycle, which entails multiple inspections at various stages of execution. The debtor days are high due to the supply 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, especially in domestic orders. Any elongation in the receivable period or further inventory build-up may strain the working capital profile further and, hence, will remain a key monitorable. However, the NWC/OI improved in FY2024 due to higher customer advances that TIPL received in FY2024.

Liquidity position: Adequate

The liquidity position is expected to remain adequate with healthy cash accruals and minimal debt repayment obligations relative to its cash flows. The company had liquid investments and free cash and bank balances of ~Rs. 111 crore as of November 2024. The company has capex plans of ~Rs. 12.00 crore in FY2025, which are expected to be funded majorly through lease financing. However, in FY2026 and FY2027, the company has a combined capex plan of Rs. 50-60 crore, funded by debt and the balance from internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded, if there is a significant improvement in the company's scale while maintaining healthy profitability metrics and an improvement in the liquidity position on a sustained basis.

Negative factors – The ratings may be downgraded in case of slow execution of projects in hand that inhibits growth in scale of operations and/or weak order book addition. Higher working capital intensity of operations which adversely impacts the liquidity position could also be a negative trigger. Further, deterioration in interest coverage to below 4.0 times on a sustained basis can lead to a rating downgrade.

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 statements of the company

About the company

TEMA India Private Limited (TIPL) was promoted by three techno-entrepreneurs, Mr. Haresh K. Sippy, Mr. Chetan Doshi and Mr. K. M. Balasara, in 1984. The company is involved in the business of designing and manufacturing/fabrication of shell and tube heat exchangers. The shell and tube heat exchangers are widely used in oil and gas refineries, petrochemical complexes, power stations, and other process industries. TIPL began its operations as a small workshop and has steadily grown into an organisation with engineering and fabrication expertise in the field of heat exchangers, supplying to leading engineering procurement construction (EPC) contractors such as Bechtel, Toyo Engineering, Flour Daniel, Technip, and Engineers India Ltd.

In September 2005, Actis PE invested $12 million in the company, which was utilised for capacity expansion of the Achhad plant. In FY2017, the PE investor exited its investment and sold its stake in TIPL to New Quest Investment II Limited (NQIL). In October 2013, Tata Capital Special Situations Fund (TCSSF) took a marginal equity stake in the company, and also infused Rs. 45 crore by way of compulsorily convertible preference shares (CCPS), Rs. 42 crore of which were converted to equity shares in FY2021. NQIL and TCSSF exited in Q1 FY2024, and the exit was largely funded by the promoters, and family friends with whom the promoters have long relationships, as per the company. Further, the company floated ~Rs. 12-crore share buyback for TCSSF shareholders. This increased the promoter stake to 72.51% from 42.43%.

Key financial indicators (audited)

TIPL Standalone	FY2023	FY2024	8M FY2025*
Operating income	308.4	398.0	346.5
PAT	7.0	52.4	64.8
OPBDIT/OI	9.9%	22.3%	28.6%
PAT/OI	2.3%	13.2%	18.7%
Total outside liabilities/Tangible net worth (times)	1.23	1.96	1.43
Total debt/OPBDIT (times)	0.5	0.2	0.01
Interest coverage (times)	2.5	7.6	13.7

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; 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

	Current (FY2025)					Chronology of rating history for the past 3 years					
	FY2025					FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	09-JAN-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Short term-others-non fund based	Short Term	9.00	[ICRA]A2+	26-AUG-2024	[ICRA]A2+	13-JUN-2023	[ICRA]A2	-	-	-	-
Long term / short term-unallocated-unallocated	Long Term / Short Term	-	-	26-AUG-2024	[ICRA]A-(Stable)/ [ICRA]A2+	13-JUN-2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	12-AUG-2022	[ICRA]BBB (Positive)/ [ICRA]A3+	25-JUN-2021	[ICRA]BBB (Stable)/ [ICRA]A3+
Long term-cash credit-fund based	Long Term	52.00	[ICRA]A-(Stable)	26-AUG-2024	[ICRA]A-(Stable)	13-JUN-2023	[ICRA]BBB+ (Stable)	12-AUG-2022	[ICRA]BBB (Positive)	25-JUN-2021	[ICRA]BBB (Stable)
Long term / short term-others-non fund based	Long Term / Short Term	589.00	[ICRA]A-(Stable)/ [ICRA]A2+	26-AUG-2024	[ICRA]A-(Stable)/ [ICRA]A2+	13-JUN-2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	12-AUG-2022	[ICRA]BBB (Positive)/ [ICRA]A3+	25-JUN-2021	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits	Simple
Non-fund based limits	Very Simple
Derivative limit	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based limits**	-	-	-	52.00	[ICRA]A- (Stable)
NA	**Non-fund based limits**	-	-	-	589.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	**Derivative limit**	-	-	-	9.00	[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

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

Prashant Vasisht
+91-124-4545 322
prashant.vasisht@icraindia.com

B Kushal Kumar
+91 40 69396408
kushal.kumar@icraindia.com

Deep Shailesh Vakil
+91 79 7780 1221
deep.vakil@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

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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