

March 12, 2021

Triveni Turbine Limited: Ratings reaffirmed; outlook revised to positive.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	129.5	129.5	[ICRA]AA-; Reaffirmed; outlook revised to Positive from Stable
Non-fund Based – Working Capital Facilities	355.0	355.0	[ICRA]A1+; Reaffirmed
Non-fund Based – Proposed Facilities	20.0	20.0	[ICRA]A1+; Reaffirmed
Total	504.5	504.5	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Positive factors in the expected improvement in Triveni Turbine Limited's (TTL's) revenues and operating profits as well as robust debt coverage metrics in FY2022. This is likely to be driven by the revival in capex cycle in end-user industries in the domestic market, wherein TTL could be a key beneficiary, given its market leadership position in the segment of less than 30-MW turbines and strong presence in cement, steel, distillery, waste-to-energy, utilities segments among others. While the demand in the key export markets remained subdued in FY2021 in the backdrop of the pandemic, the management has guided improvement in orderbook in the ensuing quarters. These coupled with shorter product execution cycle enabling product revenue recovery in FY2022, scaling up of aftermarket sales business and foray into the new business segment of American Petroleum Institute (API)-compliant turbines for the oil and gas segment could augur well for the company.

ICRA notes that the revenues and order book of TTL are likely to moderate in FY2021 because of delayed capex in the end-user industry and slower order finalisation in international markets amid travel restrictions globally. Nonetheless, its profitability and debt coverage metrics are likely to remain robust, given the enhanced automation and cost-control initiatives adopted by the company that are reflecting in improvement in its operating margin profile, healthy cash generation and debt-free status with sizeable liquidity. Further, ICRA notes that the faster recovery in the lucrative aftermarket sales business (Parts/refurbishing/services business) witnessed by TTL, driven by cost-rationalisation drive in end-user industries amid the pandemic would support operating performance in FY2021. This coupled with the management's intent to scale up API segment, which is another high margin segment, while limiting dependence on external debt would allow the company to maintain a healthy credit profile.

The ratings, however, remain constrained by the significant decline in the global steam turbines market in CY2020 and vulnerability of the steam turbines market to the capex cycles of the end-user industries. However, the company's diversified customer base, geographically diverse presence, in-house engineering capabilities with high level of product efficiency and reliability, technological advancement, and faster turnaround time to customers have allowed it to build a strong pipeline of orders as well as compete with large players with global presence.

Key rating drivers and their description

Credit strengths

Leading position in domestic market – The domestic steam turbines industry, where TTL has more than 60% market share, continues to be impacted by the domestic economic slowdown. This has been resulting in deferment of new orders and slowdown in 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, renewable power solutions for biomass, independent power producers, sugar, process co-generation and waste-to-energy systems), there has been deferment of orders due to the delayed capex in the respective end-user industries amid the pandemic. Nevertheless, TTL has maintained its leadership position supported by a healthy pipeline of orders (albeit a contraction in FY2021 on a year-on-year basis), strong research and development, and engineering capabilities.

Geographically diverse presence across various end-user markets – TTL's steam turbines are used in diverse industries, ranging from sugar, steel, cement, textiles, chemical, pulp and paper, fertilisers, palm oil, food processing, etc. The company, which was already present in South Asia, the Middle East and some African markets, has also forayed into Europe and South America in the past few years. However, in YTD FY2021, the export orders have sharply contracted owing to moderation in demand in end-user industries till H1 FY2021 and travel restrictions/lockdowns in various regions amid the pandemic. Weakness in end-user market has also resulted in moderation in order book position to Rs. 651.4 crore as on December 31, 2020 (7% lower than Rs. 694.4 crore as on December 31, 2019), indicating orderbook which less than a year of revenues. As the execution timeline remains shorter (3–9 months), some fresh orders getting executed within the year of being awarded with signs of recovery in demand pursuant to increased Government focus on infrastructure segment in the domestic market and gradual easing of travel restrictions in international markets would allow recovery in order booking.

Focus on aftermarket segment supports profitability – While TTL's operations were impacted by weak demand in the product segment, the effect has been offset to a certain extent by the increase in aftermarket sales (where the company sells spares and provides servicing for its own and other turbines) that supported operating profits and cash generation. TTL boosted its aftermarket business by expanding its presence and focusing of various customers looking to refurbish their old equipment for better efficiency.

Strong financial profile and liquidity – The high value-additive nature of operations has been resulting in healthy profitability over the years. The company remains debt free which coupled with limited capex plans and strong accruals ensures that it will continue to have a conservative capital structure. ICRA notes that TTL's working capital requirements are partly funded by advances from customers, leading to the company's healthy liquidity profile. The steady cash accruals that have resulted in an increased net worth base also afford financial flexibility to it.

Credit challenges

Order book and revenues remain sensitive to capex cycle in end-user industry – The domestic market for turbines has slowed down considerably over the last four to five years and even export markets have shown subdued demand growth in the past. The situation has exacerbated amid the pandemic. Weak demand and deferment of capex plans amid the pandemic and slower finalisation of orders owing to travel restrictions and lockdown in various countries are expected to result in double-digit de-growth in revenues in FY2021. Despite this, the higher aftermarket sales and cost rationalisation measures are expected to support the operating profitability of TTL in the near term.

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 position through experienced engineering and manufacturing capabilities, good coverage of aftersales services and faster turnaround to its customers.

Exposure to counterparty risk – The company is vulnerable to counterparty credit risk due to exposure to certain capital-intensive sectors which 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: Strong

The company's liquidity profile remains strong with robust operating cash flows, sizeable cash and liquid investments of around Rs. 350 crore (as on December 31, 2020), nil debt and unutilised working capital limit of Rs. 90.2 crore. As the capex plans remain limited (around Rs. 15–20 crore), the management has guided that there are no immediate plans for deployment of the available cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if it demonstrates healthy growth in revenues and operating profits supported by scaling up of the aftermarket business and diversification into new segments, such as API segment, while maintaining strong credit metrics and liquidity profile.

Negative factors – ICRA could downgrade the company's rating if a sustained slowdown in the domestic and export markets results in weak offtake and/or deferred execution or elongated working capital cycle, thereby impacting the cash flows and profitability. Any large debt-funded capex or acquisition or sharp reduction in liquidity could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the financial statements of TTL; the list of entities consolidated are provided in Annexure 2

About the company

TTL is a leading industrial steam turbine manufacturing company. It 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 4,000 installations in the domestic market and in the export market. Its manufacturing plants are located in Sompura and Peenya in Bengaluru.

In FY2020, the company reported a net profit of Rs. 112.7 crore on an operating income (OI) of Rs. 817.9 crore compared to a net profit of Rs. 97.1 crore on an OI of Rs. 840.0 crore in the previous year.

Key financial indicators (audited)

TTL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	840.0	817.9
PAT (Rs. crore)	97.1	112.7
OPBDIT/OI (%)	18.2%	19.3%
RoCE (%)	34.6%	31.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	49.3	29.5
DSCR (times)	37.2	25.0

Source: Company, ICRA Research; All ratios as per ICRA calculations

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	FY2020	FY2019	FY2018
					12-Mar-2021	27-Jan-2020	08-Jan-2019	11-Dec-2017
1	Fund-based – Working Capital Facilities	Long Term	129.5	-	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Non-fund Based – Working Capital Facilities	Short Term	355.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-fund Based – Proposed Facilities	Short Term	20.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

&= Under watch with developing implications

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 [click here](#)

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	-	-	-	129.5	[ICRA]AA-(Positive)
NA	Non-fund Based-Working Capital Facilities	-	-	-	355.0	[ICRA]A1+
NA	Non-fund Based-Proposed Facilities	-	-	-	20.0	[ICRA]A1+

Source: Company data; interest rates as on December 30, 2020

Annexure-2: List of entities considered for consolidated analysis

Company Name	TTL 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

Source: TTL annual report FY2020

Note: ICRA has taken a consolidated view of the parent (TTL), its subsidiaries and associates while assigning the ratings.

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