

March 25, 2022

Triveni Turbine Limited: Long-term rating upgraded, short-term rating reaffirmed and rated amount enhanced

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(Positive); Upgraded from [ICRA]AA-(Positive)
Non-fund based-Working Capital Facilities	355.0	450.0	[ICRA]A1+; reaffirmed
Non- fund based - Unallocated Facilities	20.0	5.0	[ICRA]A1+; reaffirmed
Total	504.5	584.5	

* Instrument details are provided in Annexure-1

Rationale

The rating action for the debt programmes of Triveni Turbine Limited (TTL) factors in the expected improvement in its revenues and operating profits as well as robust debt coverage metrics in FY2022-FY2023. This is supported by a healthy order book of Rs. 924 crore as on December 31, 2021 – a multi-year high. The current order book lends increased revenue visibility at 1.1 times (order execution period is generally 6-12 months for the product segment and 3-9 months for the after-market segment) amid the ongoing recovery in the capex cycle in various key end-user segments in both domestic and global markets. Further, the company's order book is fairly diversified in terms of end-user industries with process co-generation constituting 33% of the orders, followed by steel (20%), after-market (~16%), independent power plants (IPP: 12%), sugar co-generation (11%) and others. The diversified end-user base, coupled with TTL's recent foray into American Petroleum Institute (API)-compliant turbines for the oil and gas sector which has relatively high margins, augurs well for the company.

The ratings continue to factor in the company's market leadership in steam turbines of up to 30-MW segment size (though manufactures above 30 MW turbines as well), its long track record in the industry, strong after-sales service network and technical and cost competitiveness. The company's operating income is expected to improve over the medium term owing to a healthy current order book along with its diversified geographical presence, competitiveness by virtue of value engineering, faster turnaround to customers and constant focus on introducing designs to better suit the evolving customer requirements. These factors have resulted in healthy profitability and steady accruals. The low working capital intensity of operations driven by access to advances from customers, besides healthy cash accretion over the years, has resulted in a largely debt-free capital structure and strong coverage indicators. Also, the company's liquidity profile is expected to be strong with no major debt-funded planned capital expenditure and a favourable working capital intensity.

ICRA also notes the settlement of dispute with respect to Triveni Energy Solutions Limited (TESL; formerly known as GE Triveni Limited) with its JV partners, resulting in an inflow of ~Rs. 208 crore. The resolution of the unproductive disputes/litigation would aid focussed business growth for the entity that caters to the 30-100 MW segment.

The ratings, however, are constrained by the sensitivity of the order book to the capex cycle of the end-user industries, intense competition from various global players and the counterparty risks due to its exposure to capital-intensive sectors like sugar, cement and textiles that have moderate credit profiles. In light of the sizeable exposure to exports, TTL remains exposed to the risks emanating from slower execution in the international markets pursuant to any disruption in economic activity amid ongoing geopolitical tensions. Nevertheless, the company's diversified customer base, geographically diverse presence, varied end users, in-house engineering capabilities with high level of product efficiency and reliability, technological advancement and ability to expand product portfolio and faster turnaround time to customers have allowed it to build a strong pipeline of orders and compete with large players with global presence.

Key rating drivers and their description

Credit strengths

Leading position in domestic market – TTL holds a dominant position of around 60% market share in the sub-30 MW domestic steam turbines market, aided by a healthy pipeline of orders and strong research, development and engineering capabilities. Further, with the recent revival of capex cycle in various end-user industries, including captive power plants and waste heat recovery systems, renewable power solutions, sugar, process co-generation and waste-to-energy systems, TTL witnessed a strong order inflow of Rs. 901 crore in 9M FY2022 (~89% YoY growth), higher than the order booking of Rs. 643 crore in FY2021.

Geographically diverse presence across various end user markets with healthy current order book position - TTL's steam turbines are used in diverse industries, ranging from sugar, steel, cement, textiles and chemicals to pulp and paper, fertilisers, distillery, Waste-to-energy, Biogas, palm oil and food processing. The company's presence in South Asia, the Middle East and some African markets has been relatively long. In the last few years, it has expanded its presence across markets like Europe and South America. TTL's unexecuted order book of Rs. 924 crore as on December 31, 2021 (1.1 times of OI) is fairly diversified in terms of the end-user industries with process co-generation constituting 33% of the orders, followed by steel (20%), after-market (~16%), independent power plants (IPP: 12%), sugar co-generation (11%) and others. TTL's current order book lends strong medium-term revenue visibility, given that an order's average execution tenure is six to twelve months. However, the completion of projects within the agreed timelines, while maintaining the desired quality parameters, is critical to minimise the liabilities arising from project delays and performance issues.

Focus on exports and refurbishing markets supports profitability – TTL's operating profits are supported by a healthy proportion of after-market sales (where the company sells spares and servicing for its own, other turbines and other rotating equipment) and exports, wherein contributions are higher than the domestic product segment. The after-market business has been boosted by TTL's expanding presence and the focus of various customers to refurbish their old equipment for better efficiency. However, the operating profit margin moderated to 19.6% in 9M FY2022 (PY: 23.5%) on account of increased raw material and logistic costs along with a lower mix of exports.

Strong financial profile and liquidity - High value-additive nature of TTL's operations has resulted in healthy profitability over the years. The company remains largely debt-free and strong accruals ensure that it will continue to have a conservative capital structure. The working capital requirements are partly funded by advances from customers, leading to a healthy liquidity profile for the company over the years. Further, with the final settlement of TESL's dispute with its JV partners and an efficient working capital management, TTL had around Rs. 725 crore of cash and current investments as on December 31, 2021. The significant cash generation increased the net worth base, adding to the company's financial flexibility.

Credit Challenges

Order booking and revenues sensitive to capex cycle in end-user industry – While the capex cycle in both domestic and export markets has revived recently, TTL's order booking and, hence revenues remain vulnerable to the capex cycle in the end-user industries. However, diversification across geographies and end-users mitigates this risk to an extent.

Intense competition - TTL competes with large players that benefit from operational, technical and financial support from global parent companies. However, the company too has been able to compete with the bigger players and gain market share globally. In addition, it has continued to maintain its dominant presence through experienced engineering and manufacturing capabilities, good coverage of after-sales services and faster turnaround to its customers.

Exposure to counterparty risks - The company is vulnerable to counterparty credit risks due to the exposure to capital-intensive sectors like sugar, cement and textiles that have moderate credit profiles. Nonetheless, the risk is mitigated by favourable contractual terms that ensure partial upfront payments from customers. Also, TTL's diversified customer base helps to reduce the risk.

Liquidity position: Strong

The company's liquidity profile remains strong with healthy operating cash flows, sizeable cash and current investments of around Rs. 725 crore as on December 31, 2021 and average cushion of drawing power of ~Rs. 138 crore over September 2020 to September 2021. Further, the company remained largely debt-free. Additionally, there are no immediate plans to deploy the available cash surplus with the capex plans remaining modest.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a significant growth in its scale, revenue and operating profits, driven by a substantial growth in order bookings, scaling up of after-market business and diversification into new segments, while maintaining strong credit metrics and liquidity profile.

Negative factors – ICRA could revise outlook to Stable if there is sustained slowdown in the domestic and export markets which results in weak order-booking 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 unfavourable rating action.

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

Triveni Turbine Limited (TTL) is an established industrial steam turbine manufacturing company and holds a leadership position in the sub-30-MW capacity turbine category. It was a division of Triveni Engineering Industries Limited (TEIL; rated ICRA AA (Stable)/A1+) since 1970s and was demerged with effect from October 2010. Over the years, the company has completed more than 5,000 installations in the domestic and export markets. Its manufacturing plants are located at Sompura and Peenya in Bengaluru.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	817.9	702.6
PAT (Rs. crore)	112.7	97.2
OPBDIT/OI (%)	19.3%	21.2%
PAT/OI (%)	13.8%	13.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	29.5	53.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Mar 25, 2022	Mar 12, 2021	Jan 27, 2020	Jan 08, 2019
1 Fund-based – Working Capital Facilities	Long Term	129.5	-	[ICRA]AA (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2 Non-fund Based – Working Capital Facilities	Short Term	450.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Non-fund Based – Unallocated Facilities	Short Term	5.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based- Working Capital Facilities	Simple
Non-fund based-Working Capital Facilities	Very Simple
Non- fund based - Unallocated Facilities	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Working Capital Facilities	NA	NA	NA	129.5	[ICRA]AA (Positive)
NA	Non-fund based- Working Capital Facilities	NA	NA	NA	450.0	[ICRA]A1+
NA	Non- fund based - Proposed Facilities	NA	NA	NA	5.0	[ICRA]A1+

Source: Company data

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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 FY2021, * As on March 31, 2021, ** As on September 30, 2021 the name of GETL was changed to TESL and TESL has become a wholly owned subsidiary of the TTL

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

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Anupama Arora

+ 91 124 4545 303

anupama@icraindia.com

Girishkumar Kashiram Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Suksham Arora

+91-124-4545 300

suksham.arora@icraindia.com

RELATIONSHIP CONTACT

L. Shivkumar

+91-20-61143406

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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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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