Thermax Babcock & Wilcox Energy Solutions Private Limited

Instrument	Amount	Rating Action
Term loans	Rs. 437.00 crore	[ICRA]BBB+ (Negative) reaffirmed
Cash Credit	Rs. 100.00 crore	[ICRA]BBB+ (Negative) reaffirmed
Forward Cover	Rs. 5.00 crore	[ICRA]A2 reaffirmed
Bank Guarantees	Rs. 470.00 crore	[ICRA]A2 reaffirmed
Letter of Credit	Rs. 500.00 crore	[ICRA]A2 reaffirmed
Working Capital Term Loan	Rs. 130.00 crore	[ICRA]AA- (SO) (Stable) reaffirmed

ICRA has reaffirmed the rating assigned to Rs. 437.00 crore* term loan facilities and Rs. 100 crore cash credit facilities of Thermax Babcock & Wilcox Energy Solutions Private Limited (TBWES)† at [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the long-term ratings remains 'Negative'. ICRA has also reaffirmed the ratings assigned to Rs. 975.00 crore short term fund based and non fund based facilities of TBWES at [ICRA]A2 (pronounced ICRA A two). ICRA has also reaffirmed the long-term rating of [ICRA]AA- (SO) (pronounced ICRA double A minus Structured Obligation) to the Rs. 130 crore Working Capital Term Loan (WCTL) facility. The outlook on the ratings of the WCTL facility is Stable. The letter SO in parenthesis suffixed to a rating symbol stands for Structured Obligation. An SO rating is specific to the rated issue, its terms and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

The rating reaffirmation continues to reflect the strong technical, managerial and financial support the company receives from both the sponsors, experienced key management personnel with extensive experience in the domestic and international power equipment sector, as well as likely favourable business prospects for super-critical technology based units in domestic power sector in the long run if capacity addition picks up pace. ICRA expects the company to benefit from synergies derived from the long working relationship of both the sponsors and the strategic importance of the JV for them, which is evidenced by the fact that TBWES has already received few orders from both promoters. The strong parent support is further emphasized by planned equity infusion of ~Rs. 100 crore in the current fiscal in order to fund the operating overheads.

The ratings, however, remain constrained by the absence of any sizeable confirmed orders so far owing to continued slowdown in the fresh order inflows for power generation equipments due to deferment of investment plans by private IPPs as well as delays in finalization of project awards by State/Central sector entities. ICRA also notes that majority of the order finalization in the super-critical space in the recent past has been on EPC basis, while some orders were finalized on BTG basis. Therefore, the ability of the company to enter into project specific tie-ups with STG suppliers and developing project construction capabilities so as to execute either BTG or full EPC orders remains important, also in view of the high competition in the domestic market. The company is participating in bidding process for projects in Central & State sector, though the timeliness of tendering process for these projects, as well the company's ability to emerge as a successful bidder, remains to be seen. Overall, the company's ability to win and build up the order book position in the near term remains critical from the credit perspective, also given that debt repayment has already commenced from June 2015. With no major orders in hand, TBWES has availed a working capital term loan (WCTL) facility – backed by letter of comfort from both the sponsors - in order to fund the operational overheads. Additionally, planned equity infusion would provide some support for the financial risk profile in the near term. The company's dependence on external borrowings could further increase, in case of

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* 100 lakh = 1 crore = 10 million

† For complete rating definition, please refer to ICRA website www.icra.in or any of the ICRA Rating Publications.

extended delays in winning orders in near term, which in turn would also weaken financial risk profile of the company.

ICRA further takes into consideration pricing pressures for all new orders in the market, which are likely to persist in the near to medium term given the over-capacity in this segment. The ability to optimize costs through process efficiencies as well as indigenization of critical components would remain important from the credit perspective.

The [ICRA]AA- (SO) rating for the Rs. 130 crore WCTL limits of TBWES takes into account the unconditional and irrevocable letter of comfort issued by Thermax Limited (TL, rated [ICRA]AA+, Stable/ [ICRA]A1+) covering 51% of the principal and Stand-by Letter of Credit issued by BNP Paribas on behalf of Babcock & Wilcox Power Generation Group, covering 49% of the principal. The [ICRA]AA- (SO) rating for the WCTL limits addresses the servicing of the bank lines to happen as per the underlying terms of the bank lines and the letter of comfort/SBLC for the same. The rating also assumes that the guarantee will be duly invoked by the lender, as per the terms of the instrument and guarantee agreements, in case there is a default in payment by the borrower. The rating also assumes that the guarantee will be accelerated in case the SBLC is not renewed prior to its expiry date as per the terms of the sanction letter.

Company Profile

Incorporated in June 2010, the Company has set up a manufacturing facility for subcritical and super-critical boilers at Shirwal near Pune in Maharashtra. The Company manufactures subcritical boilers above 300 MW rating and super-critical boilers up to 1000 MW rating. The Company is promoted by Thermax Ltd (holding 51% stake) and Babcock & Wilcox Power Generation Group (B&W PGG), USA (holding 49% stake). The Company has signed a technical license agreement with B&W PGG. It will also pay royalty to the licensor. The license has terms and conditions for transfer of technology and knowhow from B&W PGG to TBWES and validity of the license is 20 years. The plant has an annual capacity of 3000 MW with an estimated project cost of Rs. 808 crore. The capacity can be further expanded to 5000 MW with additional investments if required, in future. The Company also intends to provide service and replacement parts for existing power plants. The plant is fully operational and CoD was declared in March 2014.

Sponsor Profiles

Thermax Limited ([ICRA]AA+/Stable/ [ICRA]A1+):

Promoted by R.D. Aga in 1980, Thermax Limited is involved in the business of providing equipment and services solutions in energy systems comprising boilers, heaters, chillers and captive power plants and environment-friendly systems comprising air pollution control, water and waste treatment solutions and speciality chemicals. The company's key strengths lie in providing turnkey solutions for captive power plants and boilers for industrial customers across sectors such as iron & steel, cement, textiles, pharmaceuticals and refineries. The company's manufacturing facilities for packaged boilers and heaters and cooling systems are located at Pimpari-Chinchwad near Pune. Its manufacturing facility for utility range of boilers and heaters is located at Savli in Vadodara. The facility to manufacture speciality chemicals is at Khopoli near Pune in Maharashtra and that for absorption chillers is in China. With its research & development centre located at Chinchwad and design engineering offices across metropolitan cities in India, the total number of permanent employees on the rolls of the company as on March 31, 2015 was 4027. The company has reported a PAT of Rs. 336 crore on net sales of Rs. 4646 crore as on March 31, 2015. The consolidated net sales of the group stood at Rs. 5396 crore as on March 31, 2015.

Babcock & Wilcox Power Generation Group (B&W PGG)

B&W PGG is one of several business units of The Babcock & Wilcox Company (B&W). It provides advanced steam generating equipments, emissions control equipments and services for the existing fleet of power plants. B&W has manufactured first coal fired super-critical boiler in 1957. B&W PGG has many subsidiaries and group companies engaged in construction, boiler cleaning and ash handling equipments, heat treatment services, power generation, maintenance services etc. It has a joint venture in China on similar lines of TBWES named Babcock & Wilcox Beijing Company (BWBC).

B&W PGG licenses steam generation and environmental system products to selected companies around the world. The B&W PGG licensees include companies in Brazil, China, Germany, New Zealand, Korea and others. Thermax Limited is also a licensee of B&W PGG which has been very beneficial for both the companies. With a worldwide installed capacity of more than 300,000 megawatts in over 90 countries, and having supplied some of the world's largest and most efficient steam generating systems, B&W PGG has the experience and technical capability to convert the energy in a wide range of fuels to energy in steam. Boilers using Babcock & Wilcox technology are now providing more than 23% of the world's boiler-powered electricity generation capacity, and more than 35% of the capacity in the U.S. B&W has designed, manufactured and installed the largest single-unit utility boilers in North America, each generating steam for 1,300 MW of electric power.

The Board of Directors of the Company has equal representation from both the sponsors and the directors include higher management from both the companies. The key management of the company are on deputation from both the sponsors indicating strategic importance of the JV.

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