Turbo Energy Private Limited

January 02, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term - fund based facilities	50.00	40.00	[ICRA]A1+; reaffirmed
Short-term - non-fund-based facilities	20.00	-	-
Total	**70.00**	**40.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in Turbo Energy Private Limited's (TEPL/ the company) parentage, and its established presence in the domestic turbocharger market and sole supplier status with reputed clientele such as Maruti Suzuki India Limited (MSIL), Mahindra and Mahindra Limited (M&M, rated [ICRA]AAA (Stable), [ICRA]A1+) and Bharat Earth Movers Limited (BEML, rated [ICRA]A+ (Stable), [ICRA]A1+) to name a few. The rating also draws comfort from the healthy financial profile characterised by strong liquidity with cash and liquid investments of Rs.737.0 crore as on March 31, 2018 and healthy margins (21.1% operating profit margin (OPM), 15.8% net profit margin (NPM)). The debt metrics are strong with net gearing of negative 0.6 times, net debt to operating profit ratio of negative 2.8 times as on March 31, 2018 and an interest coverage of 264.8 times for FY2018. The ratings also consider continued trade support from Brakes India group companies from where TEPL procures majority of the raw materials and the technological support drawn from its parent entity BorgWarner Turbo Systems Worldwide Headquarters GmbH (BorgWarner). The company is in the midst of a sizable capital expenditure of Rs. 550 crore for establishment of new facility in Baroda, Gujarat for assembly of turbochargers. This will be part funded by debt of Rs. 300 crore term loan.

However, the rating remains constrained by high customer concentration risk with top five customers contributing to ~80% of revenues in FY2018 although the risk is partly mitigated by its long-standing relationships with customers. The ratings factor in the exposure of TEPL's business to the cyclicality in automotive industry, rapid technology changes and significant threat of substitution from electric vehicles, although the same is low in the medium term.

Outlook: Stable

ICRA believes that Turbo Energy Private Limited will continue to maintain strong liquidity in the form of cash and liquid investments (Rs 737.0 crore as on March 31, 2018). The outlook may be revised to Positive if TEPL witnesses substantial growth in revenue, while sustaining its profitability. The outlook may be revised to 'Negative' if there is any substantial upstreaming of funds in the form of dividends or in the event of any major cost/time overruns in the capex and thereby weakening liquidity.

Key rating drivers

Credit strengths

Financial profile characterised by healthy margins, strong liquidity and robust debt metrics - The company's revenues stood at Rs. 1,191.7 crores (up 18.7% YoY) for FY2018 supported by 13.0% growth in volumes and 13.1% growth in realisations. The growth was primarily aided by incremental orders from the existing customers supported by healthy growth in the commercial vehicle segment. The company's operating margins and net margins remain healthy at 21.1%

(up 70 bps YoY) and 15.8% (down 60bps) respectively for FY2018. The debt metrics of the company continue to remain robust with gearing of 0.02 times, net gearing of negative 0.6 times, total debt to operating profit ratio of 0.1 times, net debt to operating profit ratio of negative 2.8 times as on March 31, 2018 and interest coverage of 264.6 times for FY2018. The liquidity profile remains strong with cash and liquid investments to the tune of ~Rs. 737.0 crores as on March 31, 2018. The company is in the midst of Rs. 550 crore of capital expenditure spread over three years, for establishment of new facility at Baroda, Gujarat and is part funded through term loan of Rs. 300 crore term loan (Rs. 120 crore drawn as on November 2018). While the debt-funded capex would moderate the debt protection metrics, ICRA expects the debt protection metrics to remain strong.

Sole supplier status with established OEMs resulting in the market leader position – TEPL has an established presence in the domestic turbocharger industry and is the sole supplier for reputed client like Maruti Suzuki India Limited, Mahindra & Mahindra and Bharat Earth Movers Limited to name a few. The company also caters to other reputed clientele like Ashok Leyland (ALL, rated [ICRA]AA (Positive), [ICRA]A1+) and Tata Motors Limited (TML, rated [ICRA]AA (Stable), [ICRA]A1+). Longstanding relationship with these customers has aided in repeat orders and revenue growth over the years (3- year revenue CAGR stood at 12.2% during FY2016-FY2018).

Strong parentage lending trade and technological support – Being part of BorgWarner Turbo Systems Worldwide Headquarters GmbH and the Brakes India group, the company derives trade and technological support from the parent companies. The company had derived ~17% of revenues in FY2018 through export of turbocharger components to BorgWarner. The company also procures ~75% of the raw materials (which includes job work and machining) from the group companies like Brakes India Private Limited and ABI Showatech (India) Private Limited (rated [ICRA]A+ (Stable), [ICRA]A1+) lending operational support.

Credit challenges

High customer concentration risk - The company faces a high customer concentration risk with its top five customers accounting for ~80% of revenues in FY2018. However, long standing relationship with the customers and strong parentage mitigates the risk to an extent. The company has also backed orders for new models from Ford Motor Company and Hyundai Motor India Limited during FY2018 which is expected reduce the concentration risk in the future. However, any positive effect of the same depends on the performance of the models in the market.

Vulnerability to the cyclicality in the automotive industry and threat of substitution from electric vehicles – With limited revenues from the replacement market (~6% of revenues in FY2018), TEPL's performance is largely dependent on the cyclical automotive demand. The company also faces significant threat from rapidly changing technology in vehicle propulsion and alternative fuels like electric vehicles. While affordability and lack of proper infrastructure is expected to hinder the penetration of electric vehicles in the near term, the demand for turbo chargers is expected to wane over the long term.

Liquidity Position:

TEPL's liquidity has remained strong with cash and liquid investments of Rs. 737.0 crore as on March 31, 2018. Its average working capital utilization remains low at 27.8% of sanctioned limits and 4.7% of drawing power for the 12-month period ended September 2018. Going forward, TEPL has no repayment obligations in FY2019, Rs. 35.7 crore[1] in FY2020, Rs. 85.7 crore in FY2021 for the Rs. 300 crore term loan (Rs. 120 crore drawn during November 2018) for setting up of a new facility at Baroda. With the capex and repayment obligations likely to be minimal compared to anticipated

[1] *foreign currency converted to Rs. based on best available estimates*

accruals and existing cash and liquid investments, ICRA expects TEPL's liquidity position to remain strong over the medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company.

About the company:

Commencing operations in 1982 as a technical and financial joint-venture between Sundaram Finance Limited, Brakes India Limited and AG Kühnle, Kopp & Kausch (subsequently acquired by *BorgWarner Turbo Systems*). TEPL is engaged in the manufacture of turbochargers for diesel and petrol fueled engines in passenger vehicles (64.4% of total revenues in FY2018) and commercial vehicles (27.2% of total revenues in FY2018) and the rest from off the road vehicles and tractors. The company also manufactures turbocharger parts which are exported to BorgWarner (17% of total revenues in FY2018).

The company is the market leader in the domestic turbocharger industry and is the sole supplier for many OEMs with respect to diesel turbochargers. The company is a Tier 1 supplier to reputed OEMs like Maruti Suzuki India Limited, Mahindra & Mahindra, Ashok Leyland Limited etc. TEPL sources its raw materials (around 75%) primarily from group companies and imports child parts from Europe. TEPL has two manufacturing/ assembly units in Chennai and one in Rudrapur, Uttarakhand. The company is also establishing a greenfeild manufacturing facility in Baroda which is expected to be commissioned in Q4 FY2019.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,003.9	1,191.7
PAT (Rs. crore)	164.6	188.5
OPBDIT/OI (%)	20.4%	21.1%
RoCE (%)	NA	20.4%
Total Debt/TNW (times)	0.01	0.02
Total Debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	361.0	264.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jan 2019	Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Mar 2017	Date & Rating in FY2016 Jun 2015
1	Fund based facilities	Short Term	40.00		**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	Non-fund-based facilities	Short Term	-		**-**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

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 www.icra.in

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	WCDL/ EPC/ FCNR B/ Bill & Invoice Discounting/ EPC backed by FD*				20.00	[ICRA]A1+
NA	Short term loan/ EPC/ Sales bill discounting/ EPC backed by FD				20.00	[ICRA]A1+

Source: Turbo Energy Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Turbo Energy Germany GmbH	100.00%	Full Consolidation

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Prem Tej Reddy T
+91 44 4297 4323
t.reddy@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
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