thyssenkrupp Industries India Private Limited

April 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	92.50	83.50	[ICRA]AA (Stable); reaffirmed
Bank guarantee/Letter of credit	2165.00	2075.00	[ICRA]AA (Stable); reaffirmed
Total	**2257.50**	**2158.50**	

Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation favourably factors in the long track record and established market position of thyssenkrupp Industries India Private Limited (tkII) in the capital goods industry, both in India and overseas. The rating also derives comfort from the improved profitability in 9M FY2019, supported by a healthy growth in high-margin service division and cost-optimisation measures undertaken by the company's human resource department, which resulted in a decline in employee cost. ICRA believes that the current profitability level is likely to sustain in the near term owing to a rising share of the Service division in tkII's total sales and better distribution of fixed costs due to revenue bookings in some large Material Handling Equipment (MHE) projects. The rating also considers the healthy order inflow in the MHE and Service divisions in 9M FY2019 resulting in an order book of Rs. 3,312 crore as on December 31, 2018 (2.7 times the revenues of FY2018), which provides good revenue visibility over the near-to-medium term. ICRA also notes that tkII's operational profile is adequately supported by its well-diversified portfolio across various sectors and its strong market position in the MHE division. The strong market position enables tkII to keep its working capital requirements negligible as it receives adequate customer advances. tkII continues to have a healthy liquidity position, as seen from large unencumbered cash balance of Rs. 780 crore as on December 31, 2018 and unutilised bank limits of Rs. 83.5 crore, which impart a high degree of financial flexibility. The rating also factors in the robust capitalisation and coverage indicators of the company in the absence of any debt and its strong technical backing from thyssenkrupp Industrial Solutions AG.

Nevertheless, the rating is constrained by the intensely competitive nature of the industry in both domestic and overseas markets. Being a part of the capital goods industry, tkII's revenue growth is a function of order inflow, which in turn is sensitive to economic and investment cycles. ICRA notes that the company's pace of order execution remains exposed to regulatory risks, which could lead to project slippages. Also, the current order book is skewed towards three large orders, which account for more than half of tkII's order book, exposing the company to sales concentration risk to some extent. The rating continues to factor in tkII's exposure to risks associated with fluctuation in prices of raw materials and bought-out items, given the relatively long project-execution cycle and fixed-price nature of certain contracts, notwithstanding various measures instituted by the company to manage raw material and execution costs through back-to-back contracts with vendors and adequate project scheduling.

Outlook: Stable

ICRA believes that tkII will continue to benefit from the long track record, well diversified portfolio across various sectors and strong technical backing from thyssenkrupp Industrial Solutions AG. The outlook may be revised to Positive if the company achieves substantial revenue growth along with considerable improvement in profitability. The outlook may be revised to Negative if slower-than-anticipated project execution hinders the revenue growth prospects.

Key rating drivers

Credit strengths

Established track record - tkII was incorporated in 1947 and has extensive experience in the capital goods industry. It is a part of the Germany-based thyssenkrupp Group and has a strong technical backing from thyssenkrupp Industrial Solutions AG. Besides executing projects in India, tkII has significant presence in the international market with exports contributing more than 30% to its total revenues in 9M FY2019.

Diversified product portfolio - tkII's operations are spread across four industry segments - sugar, MHE, cement and boilers - where the company provides turnkey plant and engineering solutions. Additionally, with formation of the service division in FY2013, the company is focusing on annual maintenance contracts along with sale of equipment and spares. tkII's presence in different verticals provides diversification to its revenue streams and insulates it from industry-specific downcycles to some extent.

Robust financial risk profile - The financial risk profile of tkII has remained robust over the years, as reflected by its debt-free status and strong liquidity profile with unencumbered cash balance of Rs. 780 crore as on December 31, 2018, which imparts a high degree of financial flexibility.

Healthy operational performance - tkII reported a 5% annualised growth in revenues, which stood at Rs. 957.8 crore in 9M FY2019 against Rs. 1,212.0 crore in FY2018. The top line growth was driven by completion of a large cement order and rise in service division sales. Besides, increased share of high-margin service division in total sales and decline in employee expense resulted in an increase in the operating profitability from 5.3% in FY2018 to 7.0% in 9M FY2019. tkII's order book improved from Rs. 3,071 crore as on December 31, 2017 to Rs. 3,312 crore as on December 31, 2018 on account of healthy order inflow in the MHE and service divisions. The improved order book position provides better revenue visibility for the company in FY2020.

Credit challenges

Intense competition in the industry - tkII has been facing increasing competition from established players in the domestic market and from global majors in the export markets, which exert pressure on the company's profitability and return indicators. Any prolonged downturn in the capex cycle would impact the number of fresh orders in the market and would increase competition further.

Exposed to raw material price fluctuations - The orders received by the company are primarily fixed price in nature, which in turn expose the company to risks associated with fluctuation in prices of raw materials and bought-out items. Going forward, tkII's ability to ensure procurement of critical bought-out items and execute orders in a timely manner would remain crucial.

Order book remains concentrated - tkII's order book remained concentrated with top three orders accounting for more than half of its pending orders as on December 31, 2018. Any delay in execution of these orders would hinder tkII's revenue growth prospects in the near term.

Liquidity position

The company continues to remain debt free. tkII's cash flows from operations have remained strong and are expected to remain healthy going forward on account of a favourable working capital cycle. Despite regular dividend payouts, free cash flows remain positive, a situation which is likely to persist in the near term. The company has sizeable unencumbered cash and liquid investments (Rs. 780 crore as of December 2018) and undrawn working capital limits of Rs. 83.5 crore as on March 31, 2019, which further enhance its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

thyssenkrupp Industries India Private Limited (tkII), a part of thyssenkrupp Industrial Solutions AG, which in turn is a subsidiary of thyssenkrupp AG (rated Ba2/Negative by Moody's), was incorporated in 1947 under the name of New India Development Corporation Limited in Pune, Maharashtra to manufacture machinery for sugar plants. thyssenkrupp AG is headquartered in Germany and is a diversified industrial conglomerate, which operates through six segments – industrial solutions, components technology, elevator technology, material services, Steel Europe and Steel Americas. In October 2018, thyssenkrupp AG announced its plan to separate the Group via a spin off into two independent listed companies – thyssenkrupp Materials AG and thyssenkrupp Industrials AG. thyssenkrupp Materials AG will comprise steel, material service and component technology business and thyssenkrupp Industrials AG will have the industrial solution and elevator business. Post this, thyssenkrupp Industrials AG will hold the 54.7% of the equity capital in tkII. tkII's operations are spread across sugar, MHE, cement, boiler and services divisions. The company has two manufacturing facilities located in Pune, Maharashtra and in Hyderabad, Telangana.

In FY2018, tkII reported a net profit of Rs. 83.7 crore on an operating income of Rs. 1,212.0 crore. In 9M FY2019, on a provisional basis, the company reported a net profit of Rs. 69.1 crore on an operating income of Rs. 957.8 crore.

Key Financial Indicators

Standalone financials	FY2017	FY2018	9M FY2019 (P)
Operating Income (Rs. crore)	1344.9	1212.0	957.8
PAT (Rs. crore)	79.9	83.7	69.1
OPBDIT/ OI (%)	4.1%	5.3%	7.0%
RoCE (%)	16.6%	15.4%	14.6%
Total Debt/ TNW (times)	0.0	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	13.5	35.2	41634.5
NWC/ OI (%)	-2.8%	-8.1%	-9.3%

P – Provisional; Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: tkII

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current rating (FY2020)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Apr 2019	Date & Rating in FY2018 April 2018	Date & Rating in FY2018 Apr 2017	Date & Rating in FY2017 Apr 2016	Date & Rating in FY2016 Apr 2015
1	Cash Credit	Long Term	83.50	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Bank guarantee/Letter of credit	Long Term	2075.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

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	Cash Credit	-	-	-	83.50	[ICRA]AA (Stable)
NA	Bank guarantee/Letter of credit	-	-	-	2075.00	[ICRA]AA (Stable)

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

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