

Thermax Limited

May 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	250.00	450.00	[ICRA]AA+(Stable); Reaffirmed
Non-fund Based Limits	4,450.00	4,450.00	[ICRA]AA+(Stable) and [ICRA]A1+; Reaffirmed
Total	4,700.00	4,900.00	

*Instrument details are provided in Annexure-1

The non-fund based limits are interchangeable between long term and short term

Rationale

The ratings continue to reflect the strong market position of Thermax Limited (TL) in the energy equipment business; the company is one of the leading players in providing turnkey solutions for boilers, heaters, chillers and captive power plants in the domestic market. The company continues to derive strengths from its technological superiority and its established track record in the energy equipment business. While reaffirming the ratings, ICRA has considered the TL's plans of shifting the Boilers and Heating (B&H) division to Thermax Babcock & Wilcox Energy Solutions Private Limited (TBWSEL), which is a wholly owned subsidiary of TL. From the credit perspective, the transfer of the company's B&H division to TBWSEL will have no impact on its consolidated financials.

TL is increasing its focus on its international business as the domestic business environment has been subdued over the past few years. This is also evident from an increase in share of orders from the international business in the overall order book position and the fresh order intake during the last three years. Strong international order inflow in FY2018 has boosted the consolidated order book position of the company to Rs. 6475 crore as on December 31, 2018, which is a YoY growth of 17%. However, the order inflow in FY2018-19 (9M) witnessed a YoY decline as fresh orders from the key industry segments such as steel, fertiliser, power, oil and gas have remained subdued. ICRA notes that the company's ability to win large orders and execute the same in a timely manner and within the budgeted costs will be critical to its profitability, given the increasing competitive pressures from established companies and the fixed-price nature of the contracts. However, the business risk profile of the company continues to remain strong because of its diversified client profile across industries and geographies as well as its wide product portfolio.

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, TL's revenue growth is a function of its order inflow, which in turn is sensitive to economic and investment cycles. The rating continues to factor in TL's exposure to risks associated with fluctuation in prices of raw material and bought-out items, given the relatively long project-execution cycle and fixed-price nature of certain contracts. While the profitability and return indicators of the company have remained under pressure over the last five years and stand at modest levels at present; the ratings continue to draw comfort from the company's comfortable financial risk profile attributed to a conservative capital structure and an excellent financial flexibility with sizeable cash balances and liquid investments.

Outlook: Stable

ICRA believes that TL will post healthy revenue growth in FY2019, though the profitability is likely to moderate. The outlook may be revised to Positive if the company achieves substantial revenue growth and considerably improves the profitability in a sustained manner. The outlook may be revised to Negative if profitability continues to deteriorate further or the order execution gets hindered, resulting in lower-than-estimated revenue growth.

Key rating drivers

Credit strengths

Leading market position in India, increasing international presence – The company enjoys a leading market position and benefits from its cost competitiveness, technical skills, technology tie-up with leading players and long and proven track record in the domestic market. The company also has geographically diversified operations, with more than 30% of the revenues coming from over 150 countries. The order inflow in the last two years has been heavily skewed towards export orders as the domestic orders have remained subdued.

Improvement in order book position – The consolidated order book position of TL was Rs. 6475 crore as on Dec 31, 2018 (~17% higher YoY), and had an average execution period of about of 12-36 months. The order book is primarily boosted by large export as well as domestic orders received in FY2018, which will be completely executed over the next six-nine month. However, the order inflow in the current fiscal witnessed a YoY decline as fresh orders from key industry segments such as steel, fertiliser, power, oil and gas have remained subdued.

Strong financial risk profile – Financial risk profile of TL has remained strong over the years as reflected in the net debt free status, limited working capital requirements, robust liquidity position and excellent financial flexibility. The outstanding cash equivalents and liquid investments stood at Rs. 932 crore as on September 30, 2018.

Diversified product portfolio – Apart from energy equipment, TL has presence in environment solution businesses such as air pollution control systems, water and waste treatment systems and chemicals. This provides diversification to the company's revenue streams and insulates it from industry-specific economic cycles.

Credit challenges

Moderate profitability – In the recent past, uncertain economic environment and slowdown in industrial capex in key industries such as steel, metals, cement and power have negatively impacted the order inflows of TL and the same has been manifested in the low revenue and the weak profitability performance over the last few years. The operating profitability of the company deteriorated, as reflected in the OPBDITA margin of below 10% over the last few years. The profitability also remained subdued in 9MFY2019, with an operating margin of 7.47% and a net margin of 5.22% at the consolidated level. The decline in the profitability is primarily because of rising competition and the increase in commodity prices, which the company has not been able to pass on to the customers entirely. However, the return on capital employed for the company has remained stable, at ~14-15%, over the last few years.

Intensified competition – The company's core operations have been facing increasing competition from established players both in the domestic and the global markets as the number of orders have plunged significantly, thereby putting pressure on its profitability and return indicators.

Exposure to raw material price fluctuations – The orders received by the company are typically fixed-price in nature. Therefore, the ability to manage cost of basic raw materials within the bid levels remains critical. Also, the ability to ensure procurement/delivery of critical bought-out items and execute the orders in a timely manner remains important.

Liquidity position

The company's liquidity position remains comfortable with free cash and liquid investments of Rs. 930 crore as on end-September 2018 along with ~Rs.200-crore undrawn line of credit, which is supported by adequate drawing power.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Thermax Limited, promoted by R.D. Aga in 1980, provides equipment and services solutions in the energy systems, which comprises boilers, heaters, chillers and captive power plants and environment-friendly systems such as air pollution control, water and waste treatment solutions and specialty chemicals. Historically, the company's key strengths had been in providing turnkey solutions to captive/co-generation power plants upto 50 MW and large capacity boilers for captive/industrial customers across sectors such as iron & steel, cement, textiles, pharma, refinery and the like. Subsequently, the company made a foray and set up a manufacturing facility at Vadodara, Gujarat, in FY2009, for sub-critical and utility range of boilers for power plants. The company's manufacturing facilities for packaged boilers and heaters and cooling systems are located at Chinchwad, near Pune; utility range of boilers and heater manufacturing facility at Savli in Vadodara; speciality chemicals at Paudh, Khopoli, near Pune in Maharashtra. Additionally, the facility for absorption chillers is in China. The research and development centre is located at Chinchwad while design engineering offices are present across most metro cities in India.

Key financial indicators—consolidated (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	4464.6	4439.6
PAT (Rs. crore)	281.6	256.3
OPBDIT/ OI (%)	9.3%	8.5%
RoCE (%)	17.7%	16.2%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.3	0.6
Interest coverage (times)	42.7	29.2
NWC/ OI (%)	7%	-2%

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 May 2019	Date & Rating in FY2017 Mar 2018	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Feb 2016
1 FB facilities	Long Term	450.0	450.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2 NFB facilities	Long Term	4,450.0	4,450.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3 Interchangeable (NFB facilities)	Short Term	(4,450.0)	(4,450.0)	[ICRA]A1+	[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	FB Limits	NA	NA	NA	450.00	[ICRA]AA+ (Stable)
NA	NFB Limits	NA	NA	NA	4,450.00	[ICRA]AA+ (Stable)
NA	NFB Limits	NA	NA	NA	(4,450.00)	[ICRA]A1+

* NFB limits of Rs. 4450.00 crore are interchangeable between long term and short term

Source: Thermax Limited

Annexure-2: List of companies considered for consolidation

Company Name	Ownership	Consolidation Approach
Thermax Sustainable Energy Solutions Ltd.	100%	Fully consolidated
Thermax Engineering Construction Company Ltd.	100%	Fully consolidated
Thermax Instrumentation Ltd.	100%	Fully consolidated
Thermax Onsite Energy Solutions Ltd.	100%	Fully consolidated
First Energy Pvt. Ltd	100%	Fully consolidated
Thermax Babcock & Wilcox Energy Solutions Pvt. Ltd.	99.99%	Fully consolidated
Danstoker Poland Spółka Z Ograniczona Odpowiedzialnoscia	100%	Fully consolidated
Danstoker A/S, Denmark	100%	Fully consolidated
Boilerworks Properties ApS, Denmark	100%	Fully consolidated
Boilerworks A/S, Denmark	100%	Fully consolidated
Ejendomsanpartsselskabet Industrivej Nord 13, Denmark	100%	Fully consolidated
PT Thermax International, Indonesia	100%	Fully consolidated
Rifox-Hans Richter GmbH Spezialarmaturen, Germany	100%	Fully consolidated
Thermax (Zhejiang) Cooling & Heating Engineering Co. Ltd., China	100%	Fully consolidated
Thermax Denmark ApS	100%	Fully consolidated
Thermax do Brasil-Energia e Equipamentos Ltda, Brazil	100%	Fully consolidated
Thermax Energy & Environment Lanka (Private) Limited, Sri Lanka	100%	Fully consolidated
SAE Engineering and Construction Services, S de RL de CV	100%	Fully consolidated
Thermax Energy & Environment Philippines Corporation	100%	Fully consolidated
Thermax Engineering Singapore Pte Ltd.	100%	Fully consolidated
Thermax Europe Limited, UK	100%	Fully consolidated
Thermax Inc., USA	100%	Fully consolidated
Thermax International Ltd., Mauritius	100%	Fully consolidated
Thermax Netherlands B.V.	100%	Fully consolidated
Thermax Nigeria Limited	100%	Fully consolidated
Thermax SDN. BHD., Malaysia	100%	Fully consolidated
Thermax Senegal S.A.R.L	100%	Fully consolidated

Source: Thermax Limited

ANALYST CONTACTS

Anjan Deb Ghosh

+91 22 6114 3406

aghosh@icraindia.com

Aditya Jhaver

+91 22 6169 3379

aditya.jhaver@icraindia.com

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3407

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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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
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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