

November 30, 2023

Techno Electric & Engineering Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	198.00	198.00	[ICRA]AA (Stable); reaffirmed
Non-fund based facilities	424.00	424.00	[ICRA]AA (Stable); reaffirmed
Fund-based facilities	(334.00)**	(334.00)**	[ICRA]AA (Stable); reaffirmed
Non-fund based facilities	(210.00)^	(210.00)^	[ICRA]AA (Stable); reaffirmed
Non-fund based facilities	1305.00	1305.00	[ICRA]A1+; reaffirmed
Fund-based facilities	(50.00)**	(50.00)**	[ICRA]A1+; reaffirmed
Total	1,927.00	1,927.00	

*Instrument details are provided in Annexure-1

**sub-limit of Rs. 424-crore long-term non-fund based and Rs. 305-crore short-term non-fund-based facilities

^sub-limit of Rs. 160-crore long-term fund-based and Rs. 90-crore short-term non-fund-based facilities

**sub-limit of Rs. 90-crore short-term non-fund based facilities

Rationale

The rating reaffirmation factors in Techno Electric & Engineering Company Limited's (TEECL) established track record in the EPC¹ business, backed by its strong execution capabilities, along with its expertise in the design, engineering and commissioning of extra-high voltage (EHV) installations and specialty industrial systems. Over the years, the margins from the EPC business have been better than the peers, which reflects the company's ability to deliver projects on time, while tightly controlling costs and efficiently managing the working capital. Moreover, TEECL is able to mitigate the counterparty credit risks by selectively bidding for projects having strong sponsors and/or secured funding lines, thus also ensuring a faster cash collection cycle.

The ratings derive strength from TEECL's comfortable financial profile, supported by consistent positive free cash flow generation, low debt levels, strong liquidity profile and healthy return on capital employed. The ratings further incorporate TEECL's strategic investments in the development of BOOT/BOOM² transmission line projects, which have helped generate incremental business for the EPC segment. Moreover, timely exit from such investments at attractive valuations has helped the company have an asset-light business model, in turn freeing up capital for redeploying in other growth opportunities.

The company has largely exited its wind generation business with the sale of 108.9-MW wind power capacity in Tamil Nadu, realising a gain of Rs. 68 crore in FY2023. The sale supported its bottomline in a year of weak EPC revenue and profitability due to delays at customer end and issues in the supply chain. Nevertheless, a strong order intake in FY2023 has started yielding results and the execution bounced back in Q2 FY2024, resulting in higher operating profit in H1 FY2024 compared to FY2023.

The order intake has remained robust in YTD FY2024, augmented by orders from discoms for implementing advanced metering infrastructure (AMI). The company has an unexecuted order book of Rs. 4,059 crore (excludes internal data centre order), which provides strong revenue visibility for the medium term. The order intake and revenue booking is expected to remain robust over the next few years on the back of steady orders for FGD installation and stronger demand from the transmission and AMI segments.

¹ EPC: Engineering, procurement & construction

² BOOT: Build-own-operate-transfer; BOOM: Build-own-operate-maintain

The ratings are, however, constrained by the company's exposure to sectoral and client concentration risks, with orders from the transmission & distribution (T&D) sector and flue gas desulphurisation (FGD) systems only, and the top three clients accounting for 78% of the order book as on September 30, 2023. The performance of the industrial EPC segment, which typically yields superior margins, has started picking up and the company's ability to diversify the order book across multiple sectors and clients remains a key rating driver.

The ratings are also tempered by TEECL's sizeable exposure to the debt securities of companies having weak credit profiles, exposing the company to counterparty risks associated with their timely recoverability. However, ICRA observes that the company has been able to gradually bring down its exposure to such illiquid securities and its ability to fully exit the PMS bond portfolio without any significant impairment would remain a key monitorable.

In FY2021, TEECL announced the setting up of a 40-MW hyperscale data centre in Chennai to gain a foothold in this rapidly growing segment, which has benefitted from the exponential growth in data consumption following the pandemic. ICRA notes that the company is expected to retain only a minority shareholding in this business segment with an aggregate investment of Rs. 500-700 crore across four data centres (Chennai, Kolkata, Delhi NCR, Navi Mumbai) to be set up over the next 2-3 years. Given TEECL's limited experience in this segment, its ability to collaborate with a global strategic equity partner in a timely manner and tie up with a reputed global data centre operator will be key from a credit perspective.

While the order intake has remained robust for the AMI business, this would entail upfront capital expenditure to be recovered over a 10-year annuity which can moderate the available liquidity. In addition, the company will now be exposed to a large number of weak state distribution companies as counterparties. However, the implementation of direct debit facility or dedicated escrow accounts in AMI orders can mitigate these risks. The company is expected to remain largely debt free with a strong execution pipeline across multiple orders and limited exposure to project-specific risks.

The Stable outlook on the long-term rating reflects TEECL's healthy revenue visibility in the EPC business, its reputed client profile, strong liquidity, and healthy profitability from operations.

Key rating drivers and their description

Credit strengths

Demonstrated track record in the EPC business - TEECL has a long track record of operating as an EPC contractor in the power generation, transmission, distribution, and industrial segments for 60 years. In addition, TEECL has experience in the execution of sub-station/transmission projects under BOOT/BOOM³ models. TEECL's EPC service delivery capabilities range from providing turnkey customised packaged solutions with high service component (including design and engineering) to executing turnkey captive power plant projects (of up to 100 MW), sub-station/switchyard projects of up to 765 kv, distribution system management projects and specialised industrial jobs, such as the design of high intensity power systems for aluminium smelter pots, fuel oil systems and off-site piping systems. Over the years, the company has made a footprint in the overseas markets as well in the transmission and distribution segment.

TEECL was one of the early entrants in the 765-kv sub-station segment in India. In addition, TEECL has been a frontrunner in the roll-out of emerging power transmission technologies like STATCOM (Static Synchronous Compensator). In FY2020, the company forayed into electromechanical solutions, like FGD installation at thermal power plants. Moreover, TEECL has ventured into the fast-growing data centre segment through its 40-MW hyperscale data centre project in Chennai.

Operating margins in EPC business remain better than peers, demonstrating strong execution capability - TEECL's operating margins from the EPC business have been in the range of 15%-20% between FY2015 and FY2022. Except the muted profitability in FY2023, ICRA notes that TEECL's margins are considerably higher than its peers, which demonstrates strong execution capability. Moreover, its strategy to be present in segments which have a minimum threshold level of design and engineering complexity, leads to less competitive pressure.

³ BOOT: build, own, operate, transfer; BOOM: build, own, operate, maintain

Reputed client profile in EPC business; selective bidding for projects backed by assured funding lines limits counterparty risks - TEECL is able to mitigate the counterparty credit risks by selectively bidding for projects having strong sponsors and/or secured funding lines, thus ensuring a faster cash collection cycle. However, ICRA notes that the higher share of orders from SEBs⁴ compared to Power Grid has increased the working capital deployment in the EPC business to a receivable period⁵ of 275 days in FY2023 from 147 days in FY2017, leading to a rise in working capital blockage. Although the share of orders from Power Grid has improved to 31%, the company's exposure to state discoms is expected to increase with rising orders in the AMI segment. Implementation of direct debit facility or dedicated escrow accounts will be instrumental in keeping the receivable days under check.

Comfortable financial profile, supported by consistently positive free cash flows, net debt-free status, strong liquidity, and healthy return on capital employed - Over the years, TEECL has been able to generate a steady stream of free cash flows, supported by a combination of high margins in the EPC segments, an efficient working capital deployment and asset monetisation initiatives. A consistent positive free cash flow generation has helped the company build a sizeable liquidity pool, which has been parked in liquid investments and high-yielding PMS investments. As on September 30, 2023, TEECL had a cash and liquid investment⁶ balance of Rs. 1,105 crore. TEECL's business return metrics also remained healthy, with its core-RoCE⁷ in the range of 20%-24% between FY2019 and FY2022. The same moderated to 15% in FY2023 but is expected to bounce back, going forward.

Incremental business in EPC segment from investments in BOOT/BOOM transmission line projects - TEECL entered the asset-intensive BOOT/BOOM transmission segment in CY2010 by leveraging on its core EPC capabilities, and generated incremental business for the EPC segment. Since then, TEECL has commissioned three BOOT/BOOM projects, entailing an investment of ~Rs. 1,950 crore. However, in line with the company's strategy of following an asset-light model, it has exited all its BOOT/BOOM transmission projects at attractive valuations that has freed up capital for redeploying in other growth opportunities. The company has largely exited the wind generation business, too, realising cash of Rs. 425 crore during Q4 FY2023/ Q1FY2024.

Credit challenges

Exposure to sectoral and client concentration risks - TEECL has high client and sectoral concentration risks with the top three clients accounting for 78% of the order book and the top two sectors accounting for 79% of the order book as on September 30, 2023. The sectoral concentration risk is expected to remain high with the bulk of the order book in transmission and distribution. The company's foray into the data centre business is also expected to diversify its EPC order book to an extent in the coming years.

High receivable days blocking working capital - The company's receivable days, including retention money and unbilled revenue, have remained elevated in the last four years, ranging from 250-280 days. This is principally on account of retention money as well as receivables from the wind business. While the retention money gets realised with a delay on completion of the specified milestones, ICRA notes that the recoverable amount has not increased over these years. Additionally, with the sale of wind assets in Tamil Nadu, the wind receivables are now expected to gradually come down. The receivable from the wind business stood above Rs. 170 crore in FY2021 and FY2022, but has come down to Rs. 151 crore in FY2023 and further to Rs. 131 crore in H1 FY2024.

Sizeable exposure to debt securities of companies with weak credit profiles, leading to risks of timely recoverability - From FY2018, TEECL started partly parking its surplus funds in a portfolio management scheme (PMS) having a concentrated investment pool of debt securities. ICRA notes that a sizeable share of the underlying debt securities is in companies having weak credit profiles, exposing the company to the risks associated with timely recoverability. However, ICRA observes that the

⁴ State electricity boards

⁵ Including retention money and unbilled revenue

⁶ excluding PMS securities

⁷ Return on capital employed

company has been able to gradually bring down its exposure to such illiquid securities and its ability to fully exit the PMS bond portfolio without any significant impairment would remain a key monitorable.

Liquidity position: Strong

TEECL's liquidity is assessed as strong, supported by its ability to generate positive free cash flows across business cycles. As on March 31, 2023, TEECL had a cash and liquid investment balance of Rs. 1,105 crore, which along with its largely undrawn fund-based working capital lines provides a sizeable liquidity cushion. While the company has announced buyback/dividends of Rs. 500 crore in aggregate over FY2023-25, the liquidity is expected to remain strong, aided by healthy cash accruals, and the company's asset-light approach towards the construction of data centres.

Rating sensitivities

Positive factors – The ratings may be upgraded if the sectoral and client concentration risks decline, driven by a sustainable uptick in order inflows from the industrial segment. A significant increase in the scale of operations, while maintaining healthy debt protection metrics, and a comfortable liquidity position may also support an upgrade.

Negative factors – The ratings may be downgraded if a sustained period of weak earnings and fresh order inflows leads to a decline in profits and cash accruals. The ratings may be under pressure if there is a significant increase in the receivable position, or if there are any further loans/advances to unrelated parties, and/or if there are any potential execution challenges in the ongoing projects, leading to BG invocation, and a consequent material deterioration in the liquidity profile. A large debt-funded growth plan, which leads to a marked deterioration in the debt protection metrics, and consistently negative free cash flows after meeting the scheduled debt repayments may also trigger a downgrade.

Environmental and Social Risks

Environmental considerations - TEECL operates at multiple project sites at any point of time and therefore the risk of disruption on account of adverse climate is low. Construction entities like TEECL benefit from the demand for the installation of equipment to comply with strict environmental norms (FGDs etc) set for thermal power projects. Given that construction entities generate air pollution, companies like TEECL remain exposed to the risk of temporary bans on operations in cities that are more sensitive to a deteriorating air quality.

Social considerations - Entities like TEECL face social risks stemming from the health and safety concerns of workers, manifestation of which could invite regulatory or legal action, besides reputational harm. TEECL has a track record of healthy relationships with its workers/employees, including contractual labour, with no material incidents of slowdown in execution because of workforce management issues.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TEECL. As on March 31, 2023, the company had 8 subsidiaries which are all enlisted in Annexure II

About the company

TEECL is an established EPC company having core engineering skills and light construction capabilities in the power generation, transmission and distribution and industrial segments. Today, the company has positioned itself as a turnkey provider of

customised packaged solutions with high service component (including design and engineering). It has also developed expertise in executing turnkey jobs in sub-station/switchyard projects of up to 765 kv (AIS/GIS⁸), distribution system management, captive power plant projects (of up to 100 MW) and specialised industrial jobs, like the design of high-intensity power systems for aluminium smelter pots, fuel oil systems and off-site piping systems. Over the years, the company has also made a footprint in the overseas markets by bagging orders in Afghanistan and the African region.

TEECL was one of the early entrants in the 765-kv sub-station segment in India. In addition, TEECL has been a frontrunner in the roll-out of emerging power transmission technologies like STATCOM (Static Synchronous Compensator). In FY2020, the company forayed into electromechanical solutions like FGD installation at thermal power plants. Moreover, TEECL has ventured into the fast-growing data centre segment by embarking to set up a 40-MW hyperscale data centre in Chennai. Apart from the EPC business, TEECL owns wind power assets of 21 MW in Karnataka (18 MW) and Tamil Nadu (3 MW).

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income (Rs. crore)	1073.9	829.5
PAT (Rs. crore)	260.3	186.9
OPBDIT/OI	20.7%	10.4%
PAT/OI	24.2%	22.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	39.5	8.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

⁸ Air insulated substations and gas insulated substations

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					30-Nov-23			
1	Fund-based facilities	Long Term	198.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	Non-fund based facilities	Long Term	424.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
3	Fund-based facilities	Long Term	(334.00)**	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
4	Non-fund based facilities	Long Term	(210.00)^^	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
5	Non-fund based facilities	Short Term	1305.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
6	Fund-based facilities	Short Term	(50.00)***	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Amount in Rs. crore; **sub-limit of Rs. 424-crore long-term non-fund based and Rs. 305-crore short-term non-fund based facilities

^^sub-limit of Rs. 160-crore long-term fund-based and Rs. 90-crore short-term non-fund based facilities

***sub-limit of Rs. 90-crore short-term non-fund based facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based facilities	Simple
Long-term non-fund based facilities	Very Simple
Long-term fund-based facilities (sub-limit)	Simple
Long-term non-fund based facilities (sub-limit)	Very Simple
Short-term non-fund based facilities	Very Simple
Short-term fund based facilities (sub-limit)	Very Simple

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facilities	-	-	-	198.00	[ICRA]AA (Stable)
NA	Non-fund based facilities	-	-	-	424.00	[ICRA]AA (Stable)
NA	Fund-based facilities	-	-	-	(334.00)**	[ICRA]AA (Stable)
NA	Non-fund based facilities	-	-	-	(210.00)^	[ICRA]AA (Stable)
NA	Non-fund based facilities	-	-	-	1305.00	[ICRA]A1+
NA	Fund-based facilities	-	-	-	(50.00)***	[ICRA]A1+

Source: Company

**sub-limit of Rs. 424-crore long term non-fund based and Rs. 305-crore short-term non-fund based facilities

^sub-limit of Rs. 160-crore long-term fund-based and Rs. 90-crore short-term non-fund based facilities

***sub-limit of Rs. 90-crore short-term non-fund based facilities

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

Annexure II: List of entities considered for consolidated analysis

Company Name	TEECL Ownership	Consolidation Approach
Techno Infra Developers Private Limited	100.00%	Full Consolidation
Techno Digital Infra Private Limited	100.00%	Full Consolidation
Techno Data Center Limited	100.00%	Full Consolidation
Techno AMI Solutions Private Limited	100.00%	Full Consolidation
Techno Green Energy Private Limited	100.00%	Full Consolidation
Techno Wind Power Private Limited	100.00%	Full Consolidation
Rajgarh Agro Products Ltd	96.10%	Full Consolidation
Techno Electric Overseas Pte. Ltd.	100.00%	Full Consolidation

Source: Company

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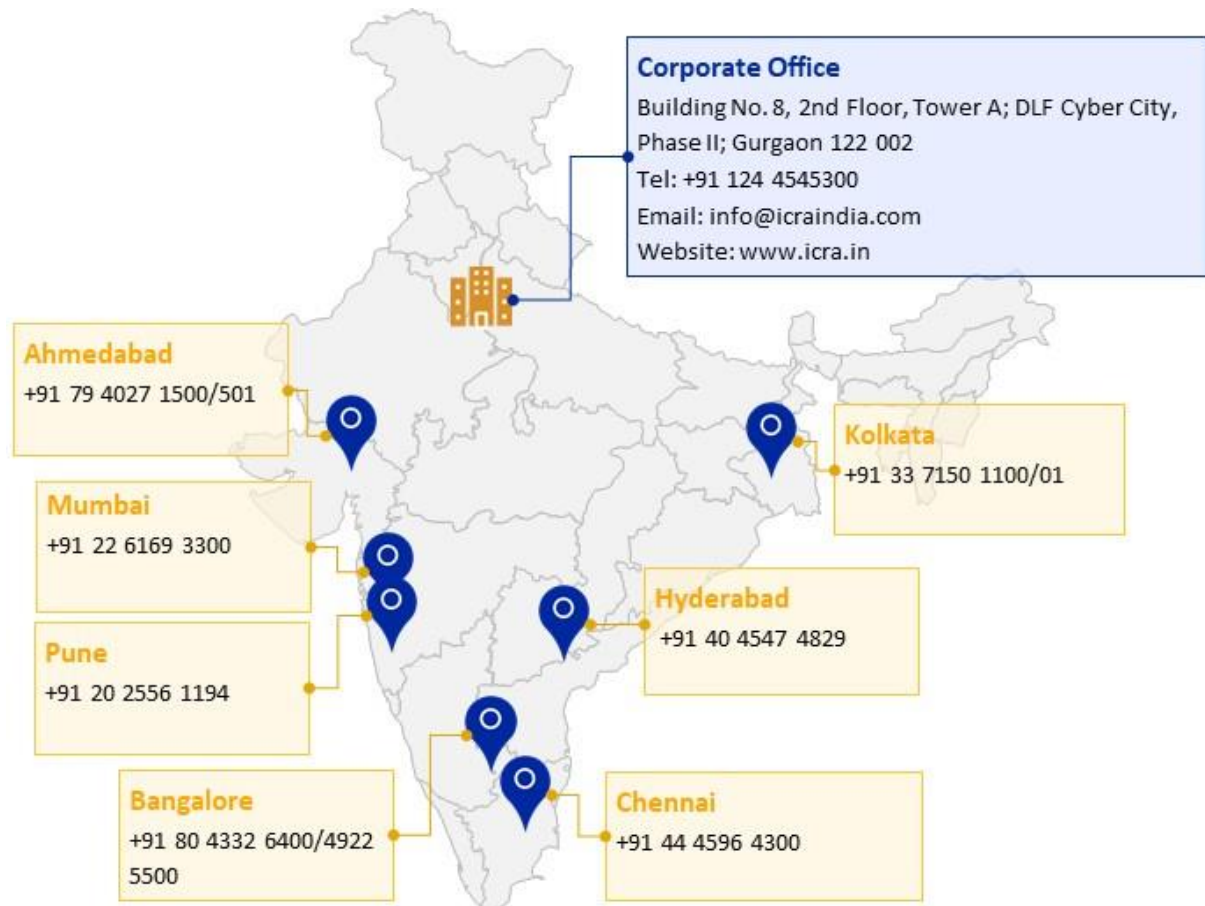
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