Techno Electric & Engineering Company Limited

Instrument	Amount (in Rs. Cr.)	Rating Action
Long term fund based facilities	121.00	[ICRA]AA- (Stable) assigned
Long term non-fund based facilities	284.00	[ICRA]AA- (Stable) assigned
Short term non-fund based facilities	790.00	[ICRA]A1+ assigned
Long term fund based facilities	(204.00)**	[ICRA]AA- (Stable) assigned
Long term non-fund based facilities	(55.00)***	[ICRA]AA- (Stable) assigned
Non-convertible debenture (NCD)	100.00	[ICRA]AA- (Stable) reaffirmed

***sub-limit of Rs 284 crore long term non-fund-based bank facilities*
****sub-limit of Rs 95 crore long term fund based bank facilities*

ICRA has assigned a long term rating of [ICRA]AA- (pronounced ICRA double A minus)*, with a Stable outlook, to the Rs 121.00 crore† long term fund based and Rs 284.00 crore long term non-fund based facilities of Techno Electric & Engineering Company Limited (TEECL). ICRA has also assigned a long term rating of [ICRA]AA-, with a Stable outlook, to the Rs 204.00 crore long term fund based (which is a sublimit of the Rs 284.00 crore long term non-fund-based limits) and Rs 55.00 crore long term non-fund based (which is a sublimit of the Rs 95.00 crore long term fund-based limits) facilities of TEECL. ICRA has also assigned a short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs 790.00 crore short term non-fund based facilities of TEECL, and has reaffirmed the long term rating of [ICRA]AA-, with a Stable outlook, to the Rs 100.00 crore non-convertible debenture programme of TEECL.

The ratings favourably takes into account TEECL's demonstrated track record in the EPC business, backed by strong execution capabilities, along with its expertise in the design, engineering and commissioning of extra high voltage (EHV) installations, as well as specialty industrial systems. The ratings also take into account TEECL's healthy profitability metrics on account of a low share of subcontracting jobs, and a relatively high service component in the order book mix. The company's reputed client profile in the EPC business limits counterparty risks. ICRA derives comfort from the healthy financial profile of its principle customers in the EPC business, viz. Power Grid Corporation of India Limited (PGCIL) (rated at [ICRA]AAA with Stable outlook and [ICRA]A1+) and NTPC Limited (rated at [ICRA]AAA with Stable outlook and [ICRA]A1+), which cumulatively account for ~65% of TEECL's current order book. The ratings also incorporate the company's favourable liquidity profile, as reflected by its healthy cash and liquid investment balance, the entity's improving capital structure and comfortable debt coverage indicators, and its diversified revenue mix across the EPC and renewable energy segments, including its wide spectrum of service delivery capabilities in the EPC segment spanning across power generation, transmission and distribution segments, as well as in execution of substation/transmission projects under BOOT/BOOM models. The ratings are, however, tempered by the competitive nature of the EPC business, marked by the presence of multiple large players, as well as a tender based contract award system, which limits the scope for margin improvement. ICRA however observes that TEECL's operating profit margins (OPM), after declining to 15.98% in FY14 from 17.90% in FY13, on account of lower order execution, has improved in FY15 (OPM of 16.52%) and H1 FY16 (OPM of 18.03%), primarily buoyed by a pick-up in order execution momentum during the period. In fact, fresh order inflows from the power distribution and transmission segment, which remained tepid in H1 FY14, had started to pick-up from H2 FY14 onwards, and had gathered steam in FY15, and also the current year till date, leading to a healthy trailing book-to-bill ratio of 2.32 times as on September 30, 2015, which provides support to the rating. However, the performance of the

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* For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

† 100 lakh = 1 crore = 10 million

industrial EPC segment, which typically yields superior margins, is yet to pick up in an appreciable way, given the current ongoing slowdown in this space at present. With the rise in order execution momentum in the last 2 years, TEECL's working capital intensity (measured by the ratio of net working capital relative to operating income) has seen some deterioration from 17% in FY14, to 33% in FY15, and 25% in H1 FY16. This deterioration has been primarily on account of an increase in receivable days during the period, rising from 50 days in FY14, to 104 days in FY15, and 75 days in H1 FY16. Given that TEECL's order execution in expected to remain buoyant in the near term, ICRA believes that ability to ensure timely realization of receivables remains crucial from the liquidity perspective. The ratings also reflect the fluctuation in the price of key raw materials, which can potentially lead to volatile cash flows. However, the presence of in-built price variation clauses in contracts protects margins to an extent. The ratings further incorporate the exposure to the wind business of TEECL's 100% subsidiary, Simran Wind Project Limited (SWPL), which has substantial debt service requirements, and also TECCL's exposure to forex fluctuation risks on account of the substantial un-hedged foreign currency loans in the books of the consolidated entity (TEECL and SWPL combined). ICRA however notes that the cash accrual of the wind subsidiary, along with its healthy liquidity profile post the recent wind asset sale of 44.45 MW[‡], is sufficient to take care of its repayment obligations. Going forward, ICRA expects TEECL's healthy order book position, reputed client profile, comfortable liquidity profile, and healthy profitability from operations to support its credit profile in the near to medium term.

Company Profile
TEECL undertakes turnkey EPC contracts with a focus on the power sector. The company provides EPC services to all the three segments of the power sector – generation, transmission, and distribution. The bulk of the company's activities are, however, focused on the design and erection of substations and switchyards upto 1200 KV. In addition, TEECL owns wind power assets of 162.9 MW, of which 45 MW is directly operated by TEECL, and the balance 117.9 MW by its wholly owned subsidiary, Simran Wind Project Ltd.

Recent Results
TEECL registered a profit after tax of Rs 51.02 crore (provisional) on the back of an operating income of Rs 395.70 crore (provisional) in H1 FY16. In FY15, the company registered a profit after tax of Rs 84.67 crore on the back of an operating income of Rs 689.12 crore.

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For further details please contact:
Analyst Contacts:
Mr. Jayanta Roy, (Tel. No. +91-33-22876617 / 22800008)
jayanta@icraindia.com

Relationship Contacts:
Mr. Jayanta Chatterjee (Tel. No. +91 33 7150 1100)
jayantac@icraindia.com

[‡] In the current year, SWPL has sold off 44.45 MW wind power assets located in Karnataka to Leap Green Energy for a consideration of around Rs 215 crore. This amount has been invested in liquid mutual funds at present

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: **9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: **9821086490**
Email: shivakumar@icraindia.com

1802, 18th Floor, Tower 3,
Indiabulls Finance Centre,
Senapati Bapat Marg,
Elphinstone, Mumbai 400013,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: **9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Bangalore
Mr. Jayanta Chatterjee
Mobile: **9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: **989986490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: **989986490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: **9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500