ICRA

March 06, 2017

Techno Electric & Engineering Company Limited

Instrument*	Rated Amount (in Rs crore)	Rating Action
Non-convertible debenture (NCD)	30 (reduced from Rs. 100 crore)	[ICRA]AA- reaffirmed; Outlook revised to Positive
Long term fund based facilities	136.00	[ICRA]AA- reaffirmed; Outlook revised to Positive
Long term non-fund based facilities	284.00	[ICRA]AA- reaffirmed; Outlook revised to Positive
Long-term fund-based facilities	(224)^	[ICRA]AA- reaffirmed; Outlook revised to Positive
Long-term non-fund based facilities	(65)#	[ICRA]AA- reaffirmed; Outlook revised to Positive
Short-term non-fund based facilities	975.00	[ICRA]A1+ reaffirmed
Short-term fund-based facilities	(20)@	[ICRA]A1+ assigned
Total	**1425**	

*Instrument details are provided in Annexure-1

^ Sublimit of the Rs. 284.00 crore long term non-fund-based limits

Sublimits of Rs. 136.00 crore long term fund-based limits and Rs 975 crore short term non fund based facilities

@ Sublimit of Rs. 975 crore short-term non-fund based facilities

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)[1] assigned to the Rs. 30.00-crore[2] non-convertible debenture programme (reduced from Rs. 100 crore), Rs. 136.00-crore long-term fund-based (enhanced from Rs. 121 crore) and Rs. 284.00-crore long-term non-fund based facilities of Techno Electric & Engineering Company Limited (TEECL). The outlook on the long-term rating has been revised from Stable to Positive. The short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 975.00-crore short-term non-fund based facilities (enhanced from Rs. 790 crore) of TEECL has also been reaffirmed. ICRA has reaffirmed the long-term rating of [ICRA]AA-, with a positive outlook, assigned to Rs. 224.00-crore long-term fund based (enhanced from Rs. 204 crore) facility, which is a sub-limit of the Rs. 284.00-crore long-term non-fund based limits, and Rs. 65.00-crore long-term non-fund based facilities (enhanced from Rs 55 crore), which are sub-limits of Rs. 136.00-crore long-term fund-based limits and Rs. 975-crore short-term non-fund based facilities of TEECL. ICRA has assigned a short-term rating of [ICRA]A1+ to TEECL's Rs. 20-crore short-term fund based facilities, which is a sublimit of Rs. 975-crore short-term non-fund based facilities.

Rationale

The revision in the long-term rating outlook factors in TEECL's higher execution momentum and improved revenue visibility following a strong inflow in fresh orders in the last one year or so. While reaffirming the ratings ICRA takes cognizance of the company's plan to merge its 100% subsidiary

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

[2] 100 lakh = 1 crore = 10 million

Simran Wind Project Limited (SWPL) with itself. Although the merger would provide TEECL (Standalone) access to the subsidiary's cash, it would result in transfer of the large debts of SWPL into its books. Nevertheless, the company's free cash flows after debt repayments are expected to remain healthy from execution of its orders and cash generated from the recent sale of ~33MW of wind power assets. This is likely to result in a negative net debt position of the consolidated entity[3] by the end of the current financial year, despite an outflow as a result of TEECL's plans to buy back a portion of its shares from the market.

The ratings continue to positively factor in TEECL's demonstrated track record in the EPC[4] business, backed by its strong execution capabilities, along with 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 sub-contracting jobs, and a relatively high service component in the order book mix. However, with ~88% of its current orders being secured from two large entities from the power sector, TEECL is exposed to sectoral and client concentration risks. Additionally, the performance of the industrial EPC segment, which typically yields superior margins, is yet to pick up in an appreciable way, and hence any diversification of client base is unlikely in the near term. Nevertheless, the company's reputed client profile in the EPC business limits its counterparty risks. The ratings are also tempered by the competitive nature of its EPC business, marked by the presence of multiple large players, and a tender-based contract awarding system, which limits the scope of margin improvement. The ratings also reflect the fluctuation in the prices 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 some extent. 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.

Key rating drivers

Credit Strengths

- Demonstrated track record in the EPC business
- Gradual exit from riskier wind business
- Healthy order book position
- Diversified revenue mix
- Reputed client profile limiting counterparty risks, and ensuring early realisation of receivables
- Comfortable profitability metrics and liquidity profile
- Improving capital structure and comfortable levels of debt coverage indicators

Credit Weaknesses

- Sectoral and client concentration risks
- Competitive nature of the EPC business
- Slowdown in the industrial EPC business
- Cash flow variability in the wind business of TEECL's wholly-owned subsidiary

[3] Consolidated entity refers to TEECL and its 100% subsidiary Simran Wind Project Limited
[4] EPC: Engineering, Procurement & Construction

Description of key rating drivers highlighted above:

TEECL is an established EPC company having heavy 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 a high service component (including design and engineering), and has also developed expertise in executing turnkey captive power plant projects (of up to 100 MW), sub-station/switchyard projects of up to 1200 KV, distribution projects under RGGVY[5] and RAPDRP[6] schemes, as well as specialised industrial jobs, like design of high intensity power systems for aluminium smelter pots, fuel oil systems, and off-site piping systems, among others. ICRA notes that TEECL stands among only a number of players that have demonstrated capability in executing 765-KV sub-station/switchyard projects, which remains an important revenue driver at present. Moreover, with competitive intensity being much lower in this segment, profitability in such projects remain much higher than in the 132 KV to 400 KV segment. In addition, TEECL has been a frontrunner in the roll-out of emerging power transmission technologies like STATCOM (Static Synchronous Compensator), which provides future growth opportunities. ICRA also derives comfort from the healthy financial profile of its principal 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+). 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. The company has a 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[7] models.

Analytical approach: Not Applicable

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology

About the Company:

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 up to 1200 KV. In addition, TEECL owns wind power assets of ~130 MW, of which ~12 MW is directly operated by TEECL and the balance ~118 MW by its wholly-owned subsidiary, Simran Wind Project Ltd.

The company has reported a total comprehensive income of Rs. 71.48 crore (provisional) in the first six months of FY2017 (H1 FY2017) on an operating income of Rs. 547.86 crore (provisional) against a total comprehensive income of Rs. 51.14 crore on an operating income of Rs. 395.70 crore (provisional) in H1 FY2016.

TEECL had earned a standalone net profit of Rs. 124.68 crore on an operating income of Rs. 1,032.84 crore in FY2016. The company had registered a consolidated profit after tax of Rs. 140.73 crore on the back of an operating income of Rs. 1,097.24 crore in FY2016.

[5] RGGVY: Rajiv Gandhi Grameen Vidyutikaran Yojana
[6] RAPDRP: Restructured Accelerated Power Development & Reforms Programme
[7] BOOT: build, own, operate, transfer; BOOM: build, own, operate, maintain

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				March 2017	March 2016	January 2015	NA
1	Non-convertible debenture (NCD)	Long Term	30	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
2	Long term fund based facilities	Long Term	136.00	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)		
3	Long term non fund based facilities	Long Term	284.00	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)		
4	Long term fund based facilities	Long Term	(224)^	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)		
5	Long term non fund based facilities	Long Term	(65)#	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)		
6	Short term non fund based facilities	Short Term	975	[ICRA]A1+	[ICRA]A1+		
7	Short term fund based facilities	Short Term	(20)@	[ICRA]A1+			

^ Sublimit of the Rs 284.00 crore long term non-fund-based limits
# Sublimits of Rs 136.00 crore long term fund-based limits and Rs 975 crore short term non fund based facilities
@ Sublimit of Rs 975 crore short term non fund based facilities

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non-convertible debenture (NCD)	28/01/2013	10.24%	28/01/2018	30	[ICRA]AA- (Positive)
Long term fund based facilities	-	-	-	136.00	[ICRA]AA- (Positive)
Long term non-fund based facilities	-	-	-	284.00	[ICRA]AA- (Positive)
Long term fund based facilities	-	-	-	(224)^	[ICRA]AA- (Positive)
Long term non-fund based facilities	-	-	-	(65)#	[ICRA]AA- (Positive)
Short term non-fund based facilities	-	-	-	975.00	[ICRA]A1+
Short term fund based facilities	-	-	-	(20)@	[ICRA]A1+

^ Sublimit of the Rs 284.00 crore long term non-fund-based limits
# Sublimits of Rs 136.00 crore long term fund-based limits and Rs 975 crore short term non fund based facilities
@ Sublimit of Rs 975 crore short term non fund based facilities
Source: Techno Electric & Engineering Company Limited

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About ICRA Limited:

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