Techno Electric & Engineering Company Limited

May 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Facilities	136.00	201.00	[ICRA]AA(Stable); assigned
Non-Fund Based Facilities	284.00	334.00	[ICRA]AA(Stable); assigned
Fund Based Facilities	(224.00)**	(289.00)**	[ICRA]AA(Stable); assigned
Non-Fund Based Facilities	(65.00)^^	(250.00)^^	[ICRA]AA(Stable); assigned
Non-Fund Based Facilities	975.00	1105.00	[ICRA]A1+; assigned
Fund Based Facilities	(20.00)***	(50.00)***	[ICRA]A1+; assigned
Total	**1395.00**	**1640.00**	

***sublimit of Rs. 334 crore long term non- fund based and Rs. 230 crore short term non-fund based facilities*

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

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

Rating action

ICRA has assigned the long-term rating of [ICRA]AA (pronounced ICRA double A)[1] to the Rs. 201.00-crore[2] (enhanced from Rs. 136.00-crore) long-term fund-based and Rs. 334.00-crore (enhanced from Rs. 284.00-crore) long-term non-fund based facilities of Techno Electric & Engineering Company Limited (TEECL). ICRA has also assigned the long-term rating of [ICRA]AA to the Rs. 289.00-crore (enhanced from Rs. 224.00-crore) long-term fund based (which is a sub-limit of the Rs. 334.00-crore long-term non-fund based and Rs. 230 crore short-term non-fund based limits), and Rs. 250.00-crore (enhanced from Rs. 65.00-crore) long-term non-fund based (which is a sub-limit of Rs. 160.00-crore long-term fund-based and Rs. 90-crore short term non-fund based limits) facilities of TEECL. The outlook on the long-term rating remains Stable. The short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) has been assigned to the Rs. 1105-crore (enhanced from Rs. 975.00-crore) short-term non-fund based and Rs. 50-crore (enhanced from Rs. 20.00-crore) short-term fund based (which is a sublimit of Rs. 90-crore short-term non-fund based limits) facilities of TEECL.

Rationale

The ratings factor in the improvement in TEECL's financial profile as reflected by a sharp reduction in TEECL's gross debt and a healthy build up in the company's cash and liquid investment portfolio. The improvement is a result of the company's steady accruals from business and complete liquidation of its renewable energy certificates at a healthy rate. Also, in ICRA's opinion, the company's strategy of gradually exiting its asset driven operations would help derisk its business, going forward. The company's free cash flows after debt repayments are expected to remain healthy from execution of its orders. This is likely to result in a gross debt free status of the consolidated entity[3] by the end of the next financial year. Moreover, the company's foray into the export market, a pick-up in order inflow from state transmission & distribution utilities, and an expected uptick in the flue gas desulphurization projects in the country is likely to keep TEECL's order execution healthy, going forward.

[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

[3] Consolidated entity refers to TEECL and its 100% subsidiary Simran Wind Project Limited

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 more than 50% 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 sectoral 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.

The rating also factor in TEECL's position as a turnkey provider of customised packaged solutions, with a high service component (including design and engineering), and its 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.

Outlook: Stable

ICRA believes TEECL would generate healthy free cash flows from execution of its current orders in hand. Order inflow is likely to pick up in the near term. The outlook may be revised to 'Positive' if there is a significant improvement in industrial order inflows. The outlook may be revised to 'Negative' if there is a reversal in order inflows.

[4] EPC: Engineering, Procurement & Construction
[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

Key rating drivers

Credit strengths

Improving capital structure and comfortable levels of debt coverage indicators – Steady improvement in TEECL's capital structure as reflected by a negative net debt position as on date and the consequent improvement in debt coverage indicators

Demonstrated track record in the EPC business – TEECL's track record operating as an EPC contractor in the domestic power generation, transmission and distribution, and industrial segments for the last 50 years

Healthy order book position – TEECL's strong order book that provides revenue visibility for the next two years; ICRA expects order book to grow further in the coming years

Reputed client profile limiting counterparty risks, and ensuring early realisation of receivables – TEECL has a reputed client profile with around 46% of revenue being generated from PGCIL; strong counterparty leads to a early realisation of receivables which benefits the overall working capital intensity of the company

Comfortable profitability metrics and liquidity profile – TEECL has a superior profitability in comparison to its industry peers by virtue of a high service component in its orders; the healthy margin in turns result in healthy accruals that positively impacts the overall liquidity profile of the company

Credit challenges

Sectoral and client concentration risks – TEECL has high client and sectoral concentration risks as a large portion of revenue is generated from PGCIL and most of the current order executions are for the power sector

Competitive nature of the EPC business – The domestic EPC business is highly competitive which would lead to deterioration of margin going forward; the company need to build expertise in new technologies and remain an early mover in such technologies in order to return similar business margins, going forward

Slowdown in the industrial EPC business – TEECL's orders from industrial customers have remained low in the last few years and unlikely to improve in the near term; future orders from the industrial segment would be a key rating sensitivity

Cash flow variability in the wind business of TEECL's wholly-owned subsidiary – TEECL's cash flows from its wind business has remained lumpy over the years as a result of long receivable period in the business, which results in cash flow variability

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Construction Entities
Rating Methodology for Wind Power Producers

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 located in the states of Tamil Nadu and Karnataka.

TEECL had earned a consolidated net profit of Rs. 192.7 crore on an operating income of Rs. 1,356.7 crore in FY2017. The company had registered a consolidated profit after tax of Rs. 117.7 crore on the back of an operating income of Rs. 1,097.2 crore in FY2016.

During 9M FY2018, TEECL (consolidated) registered a PAT of Rs. 173.6 crore on an OI of Rs. 968.0 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	9MFY2018 (Provisional)
Operating Income (Rs. crore)	1,097.2	1356.7	968.0
PAT (Rs. crore)	117.7	192.7	173.6
OPBDIT/ OI (%)	20.3%	23.1%	26.0%
RoCE (%)	15.5%	20.8%	-
Total Debt/ TNW (times)	0.55	0.27	-
Total Debt/ OPBDIT (times)	2.29	0.97	0.33
Interest coverage (times)	4.87	8.16	13.65
NWC/ OI (%)	37%	22%	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2018	Date & Rating Apr 2018	Date & Rating in FY2017 Mar-17	Date & Rating in FY2016 Mar16	Date & Rating in FY2015 Jan-15
1	Non-convertible debenture (NCD)	Long Term	0.00	0.00	-	Withdrawn	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund Based Facilities	Long Term	201.00	0.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	-
3	Non-Fund Based Facilities	Long Term	334.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	-
4	Fund Based Facilities	Long Term	(289.00)**	0.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	-
5	Non-Fund Based Facilities	Long Term	(250.00)^^	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	-
6	Non-Fund Based Facilities	Short Term	1105.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
7	Fund Based Facilities	Short Term	(50.00)***	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

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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	Fund Based Facilities	-	-	-	201.00	[ICRA]AA (Stable)
NA	Non-Fund Based Facilities	-	-	-	334.00	[ICRA]AA (Stable)
NA	Fund Based Facilities	-	-	-	(289.00)**	[ICRA]AA (Stable)
NA	Non-Fund Based Facilities	-	-	-	(250.00)^^	[ICRA]AA (Stable)
NA	Non-Fund Based Facilities	-	-	-	1105.00	[ICRA]A1+
NA	Fund Based Facilities	-	-	-	(50.00)***	[ICRA]A1+

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Source: Techno Electric & Engineering Company Limited

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