

January 13, 2017

Thermax Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	250.00	Reaffirmed at [ICRA]AA+ (Stable)
Non-Fund Based Limits [#]	4450.00	Reaffirmed at [ICRA]AA+ (Stable) / [ICRA]A1+
Total	4700.00	

*Instrument Details are provided in Annexure-1

- Non fund based limits are interchangeable between long term and short term

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]AA+ (pronounced as ICRA double A plus)¹ to the Rs. 250.00 crore² fund based limits of Thermax Limited (TL). ICRA has also reaffirmed the long term rating of [ICRA]AA+ (pronounced as ICRA double A plus) and the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 4450.00 crore non fund based limits of TL. The outlook on the long term rating is Stable. The non fund based limits are interchangeable between long term and short term.

Rationale

The ratings continue to reflect strong market position of the company in the energy equipment business as one of the leading players in providing turnkey solutions for boilers, heaters, chillers and captive power plants in the domestic business. The company continues to derive strengths from technological superiority, established track record and ability to offer turnkey solutions. While domestic business environment has continued to remain subdued with continuing slowdown in industrial and project capital expenditure, the company has been increasing its focus towards international business in regions such as Africa, South East Asia and Middle East. This is also evident from increasing share of orders from international business in the overall order-book position and fresh order intake for last two years. The company's order book position as on September 30, 2016 stood at Rs. 3,917 crore which is ~2% lower as compared to previous year. The decline is attributed to absence of large sized orders on account of slowdown in capex across key industries like power, steel, cement etc. Nonetheless, business risk profile of the company continues to remain strong as a result of its diversified client profile across industries and geographies as well as wide product portfolio. 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 also the 'fixed price' nature of such contracts. ICRA takes note that the incremental support to the joint venture, Thermax Babcock & Wilcox Energy Solutions Private Limited (TBWES), is expected to be limited due to repayment of complete long term debt.

While the profitability and return indicators of the company remained under pressure over last four years and stood at modest levels; the ratings continue to draw comfort from the company's comfortable financial risk profile arising from a conservative capital structure and excellent financial flexibility with sizeable cash balances and liquid investments.

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

Key rating drivers

Credit Strengths

- Leading market position in the businesses of large capacity boilers, heaters and absorption chillers; established market position for the business of captive power plants
- Order book position of Rs. 3,917 crore as on September 30, 2016; the order book however stands at a deteriorated level as compared to last year due to subdued domestic ordering scenario
- Geographically diversified operations with international business contribution gradually increasing to above 30% of the revenues; order inflow in the last two years is heavily skewed towards export orders
- Diversified user industry profile including traditional sectors like iron & steel, cement, power, oil & gas; as well as non-traditional sectors like textiles, pharmaceuticals, paper, foods, chemicals etc.
- Presence in environment solution businesses like air pollution control systems, water and waste treatment systems and chemicals which are relatively insulated from the economic cycles; however the water and waste treatment systems business continues to remain under pressure
- Strong financial profile as reflected in comfortable capital structure, limited working capital requirements and excellent financial flexibility as reflected in unutilised limits and outstanding cash equivalents and liquid investments
- Limited incremental support requirements for the joint venture TBWES after complete repayment of its external debt

Credit Weakness

- Demand for the products and project businesses remains exposed to cyclicalities in the investment demand in the country; continued slowdown in industrial capex across key user industries has resulted in declining fresh order inflows and hence lower order book position
- Increasing competitive intensity from domestic as well as global players putting pressure on margins and RoCE as evidenced in the decline over last four fiscals
- The ability to manage the cost of basic raw materials and bought-out items within bid levels as well as timely execution of orders remain critical for profitability, given the 'fixed price' nature of contracts in the project business

Description of key rating drivers highlighted above:

Thermax limited, being one of the leading players in the country, enjoys strong market position in the energy equipment business. In line with slowdown in key industries in the country order inflows and resultant order backlog of the company has remained under pressure over last two to three years. However, the company has been focusing on international business in regions such as Africa, South East Asia and Middle East, which is also reflected in increasing share of exports revenue for the company. The business risk profile of the company continues to remain strong as a result of its diversified client profile across industries and geographies as well as wide product portfolio. The company historically maintained healthy financial risk profile as reflected in comfortable capital structure and strong financial flexibility. The consolidated financial performance was impacted in the past, primarily due to lack of orders and resultant losses in TBWES. However the promoters infused funds of ~Rs. 452 crore (TL share of ~Rs. 230.5 crore) in TBWES in FY2017 in order to repay the external debt, therefore the support requirements towards the subsidiary are expected to come down going forward.

Analytical approach:

For arriving at the ratings, ICRA has taken into account, inter alia, the explicit support provided by TL to its subsidiaries in the form of a corporate guarantees and letters of comfort.

Links to applicable Criteria

[Corporate Credit Ratings: A Note on Methodology](#)

About the Company:

Thermax Limited, promoted by R.D. Aga in 1980, is involved in the business of providing equipments and services solutions in energy systems comprising boilers, heaters, chillers and captive power plants and environment friendly systems comprising air pollution control, water and waste treatment solutions and specialty chemicals. Historically, the company's key strengths had been in providing turnkey solutions for 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 & set up a manufacturing facility at Vadodara, Gujarat during FY 2009 for sub-critical & 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 is at Paudh, Khopoli, near Pune in Maharashtra and Jhagadia in Gujarat and an additional facility for absorption chillers in China. The research & development centre located at Chinchwad while design engineering offices across the metro cities in India. As on March 31, 2016, total number of permanent employees on the rolls of the company is 3,872.

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. Crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014	
				January 2017	February 2016	January 2015	January 2014	
1	Fund Based limits	Long Term	250.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
2	Non-fund Based limits	Long Term/ Short Term	4450.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund Based limits	-	-	-	250.00	[ICRA]AA+ (Stable)
Non-fund Based limits	-	-	-	4450.00	[ICRA]AA+ (Stable) / [ICRA]A1+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. For more information, visit www.icra.in

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