

January 31, 2022

## Techno Process Equipments (India) Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	6.50	6.50	[ICRA]BBB (Stable); reaffirmed
Non-fund-based facility	41.50	63.50	[ICRA]A3+; reaffirmed
<b>Total</b>	<b>48.00</b>	<b>70.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation factors in Techno Process Equipments (India) Private Limited's (TPEIPL) established track record in the fabricated process equipment business being an empanelled supplier for the major refineries of the country as well as strong association with major EPC contractors. Further, the ratings consider its comfortable credit profile as evident from the low debt, strong debt coverage metrics and healthy liquidity position. The ratings favourably factor in TPEIPL's healthy order book of Rs. 220.5 crore as on December 31, 2021 (i.e. 3.3 times of FY2021 revenues), providing near-to-medium-term revenue visibility along with a reputed clientele base with a history of repeat orders.

The ratings, however, remain constrained by the company's relatively modest scale of operations with revenues contracting sharply to Rs. 57.7 crore in FY2021 (against Rs. 140.3 crore in FY2020) mainly due to Covid-related disruptions had lowered order inflows as well as execution. Nevertheless, company is expected to ramp up its operations in the current fiscal due to a healthy order inflow.

ICRA notes that the company's orders and revenues depend on the capital investments undertaken by the end-user industry and thus, the revenues may be lumpy, linked to the execution of such projects. Further, the company's profitability remains exposed to the adverse fluctuation in raw material prices as TPEIPL's contracts are fixed price in nature. The ratings continue to be constrained by TPEIPL's exposure to intense competition from established domestic players. Moreover, the timely execution of the orders remains critical for the company to avoid liquidated damages that increased significantly over the last three fiscals. Its operations also remain exposed to the capex plans of the end-user industry.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that TPEIPL's revenues and accruals will be supported by its healthy order book. Also, the company will continue to benefit from its established track record in the fabricated process equipment business.

### Key rating drivers and their description

#### Credit strengths

**Established track record in fabricated process equipment business** – TPEIPL's primary focus has been to provide design and manufacturing services for pressure vessels to the major refineries of the country. Its scope of work extends from the design of pressure vessels to suit the requirements set by the project proponents, manufacturing of vessels and the delivery to the project site. Supported by a long history of successful operations since 1981, the company is an empanelled supplier for almost all the major refineries in the country and has a strong association with major EPC contractors.

**Comfortable credit profile evident from low debt, strong debt coverage metrics and healthy liquidity position** – The company's gearing has historically remained below 0.5 time on the back of limited capex requirements, resulting in low

external borrowings. An improvement in the cash flow position helped TPEIPL to reduce its dependence on outside debt, resulting in a gearing of 0.03 time as on March 31, 2021. The operating profitability has remained healthy, leading to satisfactory debt coverage metrics. Its liquidity profile is supported by unutilised fund-based working capital limits of Rs. 6.5 crore as on December 31, 2021 and sizeable free cash and bank balance of Rs.23 crore as on March 31, 2021.

**Healthy order book along with reputed clientele** - The company's reasonable order book of ~Rs. 220.5 crore as of December 2021 (i.e., 3.3 times of FY2021 revenues) provides near-to medium-term revenue visibility. The company has a reputed clientele, including major public sector undertakings (PSUs) in the oil and gas business. Most of these customers have a long-standing relationship with TPEIPL and hence provide repeat orders. It is an approved vendor with many leading EPC contactors for refineries. This enables the company to participate in the orders, which are given as a package to large contractors and cover a larger scope.

### Credit challenges

**Modest scale of operations**– The company's operations are relatively modest compared to the other competitors in the process equipment business. TPEIPL is present in the category of vessels up to 850 MT, which covers most of the refinery requirements in India. However, the highest category of tonnage i.e. above 1,000 MT per vessel is controlled by the larger players, where the company does not have a presence. In FY2021, the company's scale shrunk by more than 50% to Rs. 57.7 crore (Rs. 140.3 crore in FY2020), mainly due to Covid related disruptions which had lowered the order inflow and execution. Nevertheless, company is expected to ramp up its operations in the current fiscal due to a healthy order inflow.

**Strong competition from established domestic players** – The award of orders from the target clientele is through the open tendering process. The process equipment industry is highly fragmented, exposing the company to intense competition and pricing pressures, especially with the company's scale remaining modest that constrains its bargaining power as well.

**Profitability exposed to raw materials price fluctuations** – Given the competitive nature of the industry, the orders traditionally do not incorporate any price variation clauses. The company's profitability, therefore, remains exposed to any adverse fluctuations in the prices of raw materials. This risk is mitigated to an extent by – i) the general industry practice of incorporating a price cushion while bidding so as to meet any increase in raw material costs, and ii) the company's policy of fixing the procurement for most of the raw materials at the time of receiving the letter of intent. However, the pressure on profits persists due to the long execution cycle and the modest scale of operations, especially at a time when metal prices are rising.

**Timely execution of projects critical; instances of liquidated damages seen in the past** – A timely execution of the orders remains critical for the company as the contracts with customers have a clause related to liquidated damages (LD). The company has incurred LDs in the past, though it was able to maintain its profitability margins. TPEIPL's ability to mobilise resources and execute projects within the project timelines would remain critical.

### Liquidity position: Adequate

TPEIPL has an adequate liquidity profile as reflected in significant unencumbered cash of Rs. 23 crore as on March 31, 2021, along with the cushion in fund-based working capital limits. Further, there are no major capex plans and the entity has no long-term debt.

### Rating sensitivities

**Positive factors** – ICRA could upgrade TPEIPL's ratings if the company is able to increase the scale of operations on a sustained basis while maintaining healthy profitability, debt metrics and liquidity.

**Negative factors** – Negative pressure on the ratings could arise in the case of decline in the scale of operations and/or profitability. A stretched working capital cycle impacting cash flows or large LD claims impacting profitability could be the other negative triggers.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

### About the company

TPEIPL was established in 1981 by Mr. Ajit Singh. The company is involved in the fabrication and manufacturing of heat exchangers, pressure vessels, reactors, columns, etc., and site erection and installation of the same. Its major customers are reputed EPC companies as well as public sector undertakings in the oil and gas sector. The company's fabrication works are located at MIDC-Rabale, Navi Mumbai; MIDC-Ambarnath, Raigad; and Dahej, Gujarat.

In FY2021, TPEIPL reported a net profit of Rs. 7.7 crore on an OI of Rs. 57.7 crore compared with a net profit of Rs. 16.2 crore on an OI of Rs. 140.3 crore in FY2020.

### Key financial indicators

	FY2020	FY2021
Operating Income (Rs. crore)	140.3	57.7
PAT (Rs. crore)	16.2	7.7
OPBDIT/OI (%)	17.9%	22.6%
PAT/OI (%)	11.5%	13.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.1	0.2
Interest Coverage (times)	12.3	6.4

*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

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Jan 31, 2022	Oct 06, 2020	Jul 24, 2019	Apr 06, 2018	
1	Cash Credit	Long Term	6.50	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	
3	Non-fund-based facility	Short Term	63.50	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund-based facility	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, is available on ICRA's website: [www.icra.in](http://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	Cash Credit	NA	NA	NA	6.50	[ICRA]BBB (Stable)
NA	Non-fund-based facility	NA	NA	NA	63.50	[ICRA]A3+

Source: Company

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

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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