April 14, 2023

Triveni Turbine Limited: Long-term rating upgraded; outlook revised to Stable, short-term rating reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working capital facilities	129.5	129.5	[ICRA]AA+(Stable); upgraded from [ICRA]AA (Positive) and outlook revised to Stable from Positive
Non-fund based - Working capital facilities	450.0	495.0	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Non-fund based - Unallocated Facilities	5.0	-	-
Total	**584.5**	**624.5**	

* *Instrument details are provided in Annexure-1*

Rationale

The upgrade in the long-term rating for the bank facilities of Triveni Turbine Limited (TTL) factors in the expected improvement in its revenues and operating profits as well as robust debt coverage metrics in FY2023-FY2024. This is supported by a healthy order book of Rs. 1,232 crore as on December 31, 2022 – a multi-year high, robust order intake and a continued favourable investment cycle in various end-user industries in India as well as globally. The current order book lends increased revenue visibility at 1.1 times (order execution period is generally 6-12 months for the product segment and 3-9 months for the after-market segment) amid the ongoing capacity expansion in various key end-user segments in both the domestic and global markets. Further, the company's order book as of December 2022 is fairly diversified in terms of end-user industries with process co-generation constituting 28%, followed by independent power plant (IPP: 17%), after-market (~16%), steel (~12%), sugar co-generation (10%) and others. The diversified end-user base, coupled with TTL's recent foray into American Petroleum Institute (API)-compliant turbines for the oil and gas sector, an expanding market size and the limited number of players, augurs well for the company.

The ratings continue to factor in the company's market leadership in steam turbines of up to 30 MW (though it manufactures turbines above 30 MW), its long track record in the industry, a strong after-sales service network and technical and cost competitiveness. The company's operating income is expected to improve over the medium term owing to a healthy current order book along with its diversified geographical presence, competitiveness by virtue of value engineering, faster turnaround to customers and constant focus on introducing designs to better suit the evolving customer requirements. These factors had aided healthy profitability and steady accruals in the recent past as well. The low working capital intensity of operations, driven by access to advances from customers, besides healthy cash accretion over the years, has resulted in a largely debt-free capital structure and strong coverage indicators. Also, the company's liquidity profile is expected to be strong with no major debt-funded planned capital expenditure and a favourable working capital intensity.

ICRA also notes the settlement of dispute with respect to Triveni Energy Solutions Limited (TESL; formerly known as GE Triveni Limited) with its JV partners. The resolution of the unproductive disputes/litigation would aid focused business growth in the 30-100 MW segment as well.

The ratings, however, are constrained by the sensitivity of the order book to the capex cycle of the end-user industries, intense competition from various global players and the counterparty risks due to its exposure to capital-intensive sectors like sugar, cement and textiles that have moderate credit profiles. In light of the sizeable exposure to exports, TTL remains exposed to the risks emanating from slower execution in the international markets pursuant to any disruption in economic activity amid the ongoing geopolitical tensions. Nevertheless, the company's diversified customer base, geographically diverse presence, varied end users, in-house engineering capabilities with high level of product efficiency and reliability, technological advancement and ability to expand product portfolio and faster turnaround time to customers have allowed it to build a strong pipeline of orders and compete with large players with global presence.

The Stable outlook on the rating reflects ICRA's opinion that TTL will continue to benefit from its established position as a leading manufacturer of steam turbines with a healthy and well-diversified order backlog and a strong financial profile.

Key rating drivers and their description

Credit strengths

Leading position in domestic market – TTL holds a dominant position with around 60% market share in the sub-30 MW domestic steam turbines market, aided by a healthy pipeline of orders and strong research, development and engineering capabilities. Further, with the recent revival of capex cycle in various end-user industries, including captive power plants and waste heat recovery systems, renewable power solutions, sugar, process co-generation and waste-to-energy systems, TTL witnessed a strong order inflow of Rs. 1,139 crore in 9M FY2023 (~26% YoY growth), compared to an order booking of Rs. 1,184 crore in FY2022.

Geographically diverse presence across various end-user markets with healthy current order book position- TTL's steam turbines are used in diverse industries, ranging from sugar, steel, cement, textiles and chemicals to pulp and paper, fertilisers, distillery, waste-to-energy, biogas, palm oil and food processing. The company's presence in South Asia, the Middle East and some African markets has been relatively long. In the last few years, it has expanded its presence across markets like Europe and South America. TTL's unexecuted order book of Rs. 1,232 crore as on December 31, 2022 (1.1 times of OI) is fairly diversified in terms of the end-user industries with process co-generation constituting 28%, followed by independent power plant (IPP: 17%), after-market (~16%), steel (~12%), sugar co-generation (10%) and others. TTL's current order book lends strong medium-term revenue visibility, given that an order's average execution tenure is six to 12 months.

Focus on exports and refurbishing markets supports profitability – TTL's operating profits are supported by a healthy proportion of after-market sales (where the company sells spares and servicing for its own, other turbines and other rotating equipment) and exports, wherein contributions are higher than the domestic product segment. The after-market business has been boosted by TTL's expanding presence and growing refurbishment needs for existing equipment for better efficiency. However, the operating profit margin moderated to 19.1% in 9M FY2023 (19.4% in FY2022 and 21.2% in FY2021) on account of increased raw material and logistic costs, along with lower operating profitability in certain new geographies in the after-market segment, even as the company reverted to its pre-Covid domestic exports sales mix in 9M FY2023. The mix of domestic and export sales was 58:42 in 9M FY2023 against 69:31 in 9M FY2022. In FY2021-22, the company's incremental orders were largely from the domestic market on account of travel restrictions in various countries.

Strong financial profile and liquidity – The high value-additive nature of TTL's operations has resulted in healthy profitability over the years. The company remains debt-free and strong accruals ensure that it will continue to have a conservative capital structure. The working capital requirements are partly funded by advances from customers, leading to a healthy liquidity profile for the company over the years. While TTL had around Rs. 837 crore of cash and current investments as on December 31, 2022, there was an outgo (including taxes) of Rs. ~234 crore in Q4 FY2023 on account of the buyback announced by TTL earlier. The significant cash generation has increased the net worth base, adding to the company's financial flexibility.

Credit Challenges

Order booking and revenues sensitive to capex cycle in end-user industry – While the capex cycle in both the domestic and export markets has picked up over the last couple of years, TTL's order booking and, hence revenues remain vulnerable to the capex cycle in the end-user industries. However, diversification across geographies and end users mitigates this risk to an extent.

Intense competition - TTL competes with large players that benefit from the operational, technical and financial support from global parent companies. However, the company too has been able to compete with and gain market share globally. In addition, it has continued to maintain its dominant presence through experienced engineering and manufacturing capabilities, good coverage of after-sales services and faster turnaround to its customers.

Exposure to counterparty risks - The company is vulnerable to counterparty credit risk due to its exposure to capital-intensive sectors like sugar, cement and textiles that have moderate credit profiles. Nonetheless, the risk is mitigated by favourable contractual terms that ensure partial upfront payment from customers. Also, TTL's extremely diversified customer base helps to reduce the risk.

Liquidity position: Strong

The company's liquidity profile remains strong with healthy operating cash flows, sizeable cash and current investments of around Rs. 837 crore as on December 31, 2022 and average cushion of drawing power of ~Rs. 137.5 crore over January 2022 to January 2023. The drawing power is expected to be at an even higher level over the next 12 months. Further, the company remained largely debt free. Additionally, there are no immediate plans to deploy the available cash surplus with the capex plans remaining modest.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a significant growth in its scale and operating profits, driven by a substantial growth in order bookings, scaling up of after-market business and diversification into new segments, while maintaining strong credit metrics and liquidity profile.

Negative factors – ICRA could downgrade the ratings if there is a sustained slowdown in the domestic and export markets which results in weak order booking and/or deferred execution or elongated working capital cycle, thereby impacting the cash flows and profitability. Any large debt-funded capex and acquisition or sharp reduction in liquidity could also result in an unfavourable rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has considered the financial statements of TTL; the list of entities consolidated are provided in Annexure 2

About the company

Triveni Turbine Limited (TTL) is an established industrial steam turbine manufacturing company and holds a leadership position in the sub-30-MW capacity turbine category. It manufactures steam turbines upto 100 MW. Over the years, the company has completed more than 5,000 installations in the domestic and export markets. Its manufacturing plants are located at Sompura and Peenya in Bengaluru.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	702.6	852.2
PAT (Rs. crore)	97.2	274.4
OPBDIT/OI (%)	21.2%	19.4%
PAT/OI (%)	13.8%	32.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	53.0	57.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 14, 2023	-	Mar 25, 2022	Mar 12, 2021
1	**Fund-based – Working capital facilities**	Long Term	129.5	-	[ICRA]AA+ (Stable)	-	[ICRA]AA (Positive)	[ICRA]AA- (Positive)
2	**Non-fund based – Working capital facilities**	Short Term	495.0	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	**Non-fund based – Unallocated facilities**	Short Term	-	-	-	-	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Working capital facilities	Simple
Non-fund based - Working capital facilities	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 are available on ICRA's website: Click Here.

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Fund based - Working capital facilities**	NA	NA	NA	129.5	[ICRA]AA+ (Stable)
NA	**Non-fund based - Working capital facilities**	NA	NA	NA	495.0	[ICRA]A1+

Source: *Company data*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	TTL Ownership*	Consolidation Approach
Triveni Turbines Europe Private Limited	100.00%	Full Consolidation
Triveni Turbines DMCC	100.00%	Full Consolidation
Triveni Turbines Africa Pvt. Ltd.	100.00%	Full Consolidation
Triveni Energy Solutions Limited	100.00%	Full Consolidation
TSE Engineering (Pty) Ltd	70.00%	Equity Method

*Source: TTL annual report FY2022, * As on March 31, 2022,*

Note: ICRA has taken a consolidated view of the parent (TTL), its subsidiaries and associates while assigning the ratings

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About ICRA Limited:

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