April 28, 2023

Techno Process Equipments (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	6.50	6.50	[ICRA]BBB (Stable); reaffirmed
Short Term – Non-Fund Based – Letter of Credit	63.50	63.50	[ICRA]A3+; reaffirmed
Total	**70.00**	**70.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the established track record of Techno Process Equipments (India) Private Limited (TPEIPL) 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 comfortable liquidity position. The ratings underpin TPEIPL's healthy order book of Rs. 235 crore as on April-2023 (i.e. 2.4 times of FY2023 revenues), providing near-to-medium term revenue visibility and its association 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 of Rs. 99.4 crore in FY2023, 17% growth over previous year pointing to higher execution. Nevertheless, TPEIPL 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 lumpiness in revenue booking as was seen in the past few 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 times on the back of limited capex requirements, resulting in low external borrowings. The operating profitability remained healthy, leading to satisfactory debt coverage metrics. Its liquidity profile is supported by advances from customers, working capital limits of Rs. 6.5 crore and liquidity build-up in the first half of the year with major collections from customers.

Healthy order book along with reputed clientele – The company's reasonable order book of ~Rs. 235 crore as of April 2023 (i.e., 2.4 times of FY2023 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 longstanding 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 that may also limit its participation in certain large projects. 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 FY2023, the company's scale of operations improved to Rs. 99.4 crore (Rs. 85.3 crore in FY2022) supported by increased order inflow and execution, though it continued to remain range bound. Nevertheless, the 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, constraining 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 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 relatively long execution cycle and the modest scale of operations, especially at a time when metal prices are rising.

Timely execution of projects critical to avoid lumpiness in revenue recognition – Lumpiness in revenue booking was seen in second half of the year resulting in high working capital intensity during the year end, therefore timely execution of the orders remains critical for the company. Further, 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 liquidity profile remained adequate supported by healthy profitability and comfortable cash accruals. The company's cash flows are expected to remain comfortable, given no significant capex plans and no long-term debt repayment obligations. While the liquidity position has remained comfortable, any delays in dispatch of orders or in payments could have an adverse impact on the same going forward.

Rating sensitivities

Positive factors – ICRA could upgrade TPEIPL's ratings if the company is able to significantly scale up its operations 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	Corporate Credit Rating Methodology
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 FY2023 (provisional numbers), TPEIPL reported a net profit of Rs. 13.4 crore on an OI of Rs. 99.4 crore compared with a net profit of Rs. 11.4 crore on an OI of Rs. 85.3 crore in FY2022.

Key financial indicators

	FY2022	FY2023*
Operating income (Rs. crore)	85.3	99.4
PAT (Rs. crore)	11.4	13.4
OPBDIT/OI (%)	21.4%	22.7%
PAT/OI (%)	13.4%	13.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Net debt/OPBDIT (times)	0.3	0.4
Interest coverage (times)	9.3	7.9

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional numbers*

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 August 31, 2023 (Rs. crore)	Date & rating in	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 28, 2023	-	Jan 31, 2022	Oct 06, 2020
1	**Cash Credit**	Long Term	6.50	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Non-fund-based facility**	Short Term	63.50	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term-Fund Based/CC	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 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	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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Menka Sabnani
+91 79 4027 1562
menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches