

November 30, 2022

thyssenkrupp Industries India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-Based Working Capital Limits	73.60	43.90	[ICRA]AA (Stable); reaffirmed
Long-term– Non-Fund Based Working Capital Limits	1704.90	1734.60	[ICRA]AA (Stable); reaffirmed
Total	1778.50	1778.50	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings factors in the strong order inflow of Rs. 3,133 crore during FY2022 and Rs 1,610 crore during H1FY2023 (Rs. 2,394 crore in FY2021) for thyssenkrupp Industries India Private Limited (tkII) with the sizeable capex plans of the end-user industry such as cement, mining, chemicals & fertilizers, sugar, among others. Further, the order inflow in H2FY2023 is likely to remain healthy, primarily driven by orders from the said end user industries. The company's robust order book position of Rs. 5,121 crore as on September 30, 2022 (Rs. 4,753 crore as on March 31, 2022) equates to 2.2 times FY2022 operating income (OI), thereby providing it a healthy medium-term revenue visibility.

The rating reaffirmation continues to factors in tkII's long track record and established market position in the capital goods industry, both in Indian and overseas markets supported by strong technical know-how of majority shareholder thyssenkrupp AG (tkAG; rated B1/Positive by Moody's). ICRA continues to factor in its diverse business profile across sectors and strong position in material handling equipment (MHE) and cement division. The company's order book position remains fairly diversified with the material handling equipment (MHE) segment constituting 37% of the total order book position as on September 30, 2022 followed by orders from the boiler segment, which contributes 32%, and cement and services divisions both at 14% each.

The rating also factors in the comfortable financial risk profile as marked by a debt-free position, sizeable liquidity of Rs. 692 crore in addition to unutilised bank limits of Rs. 43.9 crore as June 30, 2022. While tkII's gearing remained robust in FY2022, coverage indicators also improved during FY2022 owing to improvement in profitability.

The rating, however, remains constrained on account of subdued albeit improving operating profitability over FY2020-FY2022 wherein the company has recognised substantial expected credit loss and bad debt provisioning. Further, the operating profit margin (OPM) remains susceptible to delays in project execution, coupled with vulnerability of profitability to raw material increases, given the fixed price nature of the contract. Such risks remain in spite of various measures instituted by the company to manage raw materials and execution costs through back-to-back contracts with vendors and adequate project scheduling. Additionally, the pricing power of tkII is impacted by intensely competitive nature of the industry in both the domestic and the overseas markets.

ICRA takes note of weak albeit improving operational profile of tkAG and the hive-off of tkAG's mining business as a strategic measure to focus on identified areas while exiting the non-core business segments. In the recently concluded deal, the mining business of tkII was not part of the global hive-off, and the company has continued to secure healthy order inflows in Q3FY2023 till date in the mining division. Additionally, tkII has signed a perpetual licensing deal with FLSmidth for sale of certain mining products and services in India, which is exclusive for a period of three years, which provides healthy order intake revenue visibility over the medium term. However, ICRA will evaluate any impact of such tkAG Group restructuring efforts on the long-term business prospects of tkII.

The Stable outlook reflects ICRA's expectation that tkII will continue to benefit from its established track record of operations, technical support from majority shareholder for majority of its business and healthy order book position. Further, the company is expected to remain debt-free with strong liquidity over the medium term.

Key rating drivers and their description

Credit strengths

Healthy order-book position reasonably diversified across various operating segments – tkII has diversified its operations across five industry segments – sugar, material handling equipment (MHE), cement and energy, where the company provides turnkey plant and engineering solutions, and service division, where the company focuses on annual maintenance contracts along with sale of equipment and spares. tkII has a healthy order book of Rs. 5,121 crore as on September 30, 2022, which provides strong revenue visibility in the near-to-medium term. Post relaxation of restrictions on the pandemic, order inflow during FY2022-H1FY2023 was robust with a fresh order intake of Rs. 3,133 crore in FY2022, a growth of 31% compared to an order inflow of Rs 2,394 crore in FY2021 (Rs 1,610 crore in H1FY2023). The healthy inflow of orders during FY2022-H1FY2023 was on account of a strong order intake from the company's largest segments – Boilers and MHE, which accounted for ~34% and ~30% of the total order inflow respectively during 18 months over FY2022-H1FY2023. With recovery in capex plans for end user industries that remain broad based, the order book expansion continued during H2FY2023 till date, and the management continues to address strong enquiries underpinning healthy revenue prospects over the medium term.

Robust financial risk profile – The financial risk profile of tkII has remained robust over the years, as reflected by its debt-free status and strong liquidity profile with unencumbered cash balance of Rs. 662.56 crore as on March 31, 2022, which imparts a high degree of financial flexibility. The coverage indicators of the company continued to remain strong in the absence of any debt, with interest coverage of 12.9 times during FY2022 as compared to coverage of 2.4 times during FY2021. However, the OPM of the company remains susceptible to risk of timely execution and credit profile of the customer, which result in fluctuation in operating margin profile of the company.

Established track record of the majority shareholder and improvement in its operating performance – tkII was incorporated in 1947 and has extensive experience in the capital goods industry. It is a part of the Germany-based thyssenkrupp Group and it enjoys technical support from thyssenkrupp Industrial Solutions AG. Besides executing projects in India, tkII has its presence in the international market with exports contributing 14% to its total revenues in FY2022 (23% during FY2021). tkII's presence in different verticals provides diversification to its revenue streams and insulates it from industry-specific downcycle to some extent. Further, operating performance of tkAG, has improved over FY2021-FY2022 (year ended September) largely driven by high steel prices. Further, the sizeable free cash and bank balances point to comfortable liquidity position, aided by reducing debt levels over the past 3 years.

Credit challenges

Subdued albeit improving operating margin profile -The company's OPM has remained subdued at 4.1% during FY2022 as compared to 1.5% during FY2021 and 2.3% during FY2020. The OPM during FY2020-FY2022 was significantly lower than OPM of 9.2% achieved during FY2019. The OPM improvement during FY2022 was on account of lower provision for expected credit losses (ECL) and bad debt write-offs at Rs 31.77 crore vis-à-vis Rs. 50 crore during FY2021 and Rs. 61 crore during FY2020. High ECL provisions over FY2020-FY2021 were driven to a large extent by the impact of high raw material costs on a large project, which witnessed significant delays, coupled with weakened credit profile of some of its customers. Profitability of select other projects was also impacted by high raw material prices, which couldn't be pass through completely. With reduction in provision for trade receivables during FY2022, the OPM witnessed an improvement to 4.1% in FY2022. ICRA expects the operating profitability to witness gradual improvement over FY2023-FY2024 on account of expected closure of some of the loss-making projects during FY2023, increased scale of operations and stabilisation of input costs.

Weak albeit improving operating performance of majority shareholder; impact of ongoing restructuring at tkAG on tkII remains a monitorable - ICRA takes note of weak albeit improving operational profile of tkAG and the hive-off of tkAG’s mining business as a strategic measure to focus on identified areas while exiting the non-core business segments. In the recently concluded deal, the mining business of tkII is not part of the global hive-off, and the company has continued to secure healthy order inflows in Q3FY2023 till date in the mining division. Additionally, tkII has signed a perpetual licensing deal with FLSmidth for sale of certain mining products and services in India, which is exclusive for a period of three years, which provides healthy order intake revenue visibility over the medium term. However, ICRA will evaluate any impact of such tkAG Group restructuring efforts on the long-term business prospects of tkII. tkII’s ability to maintain its market position and adapt to the evolving technical requirements besides benefitting from technical support from collaborators needs to be observed. While the management does not envisage any material impact of such Group level restructuring efforts on tkII’s business operations over the medium term as it has adequate in-house technical and operational capabilities to continue to grow the business, ICRA would monitor these developments and would evaluate their impact on tkII’s credit profile on a continued basis.

Intense competition in the industry – tkII has been facing increasing competition from established players in the domestic market and from global majors in the export markets, exerting pressure on the company’s profitability and business return indicators. Any prolonged downturn in the capex cycle would impact fresh order inflows and would increase the competition further.

Exposure to raw material price fluctuations – The orders received by the company are primarily fixed price in nature, which in turn exposes the company to risks associated with fluctuation in prices of raw materials and bought-out items. Going forward, tkII’s ability to ensure procurement of critical bought-out items and execute orders in a timely manner would remain crucial.

Liquidity position: Strong

tkII’s liquidity remained strong with an unencumbered cash and liquid investments of Rs. 662.56 crore and undrawn fund-based limits of Rs. 43.7 crore as on March 31, 2022 and debt-free position. However, the liquidity profile may moderate to some extent on account of high working capital intensity due to increase in order book and longer collection period with working capital blocked in retention money as well.

Rating sensitivities

Positive factors - While rating upgrade is un-likely in near term, improvement in operating margin above 8% supported by increased scale and strong order book position on sustained basis, along with strong liquidity profile can result in favourable rating action.

Negative factors –Significant decline in order intake or revenues of the company leading to decline in operating margin may lead to rating downgrade. Additionally, increased working capital intensity on sustained basis resulting in weakened liquidity position may trigger downward rating action. Further, sizeable upstreaming of cash and cash equivalents available with the company by the shareholders leading to weakening of its liquidity profile, may trigger a downward rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

thyssenkrupp Industries India Private Limited (tkII), a part of thyssenkrupp Industrial Solutions AG (holds 54.7% stake in tkII), which in turn is a subsidiary of thyssenkrupp AG (rated B1/Stable by Moody's), was incorporated in 1947 under the name of New India Development Corporation Limited in Pune, Maharashtra to manufacture machinery for sugar plants. tkAG, headquartered in Germany, is a diversified industrial conglomerate which currently operates through three main business areas namely steel, capital goods and services that are organised into six segments – Automotive Technology, Bearing and Forged Technologies, Marine Systems, Material Services, Steel Europe and Multi Track (Cement, Tech., Mining Tech etc). tkII's operations are spread across sugar, MHE, cement, energy and the services divisions. The company has two manufacturing facilities located in Pune, Maharashtra and in Hyderabad, Telangana.

Key financial indicators (audited)

tkII Standalone	FY2021	FY2022
Operating Income (Rs. crore)	1709.0	2541.0
PAT (Rs. crore)	38.9	97.1
OPBDIT/OI (%)	1.5%	4.1%
PAT/OI (%)	2.3%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	2.4	12.9

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Nov 30, 2022	Sep 30, 2021	Jul 31, 2020	Apr 08, 2019	
1	Long-term Fund-Based Working Capital Limits	Long term	43.90	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	
2	Long-term– Non-Fund Based Working Capital Limits	Long term	1734.60	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Working Capital Limits	Simple
Long-term– Non-Fund Based Working Capital Limits	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 analyzing 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-Based Working Capital Limits	NA	NA	NA	43.90	[ICRA]AA (Stable)
NA	Long-term– Non-Fund Based Working Capital Limits	NA	NA	NA	1734.60	[ICRA]AA (Stable)

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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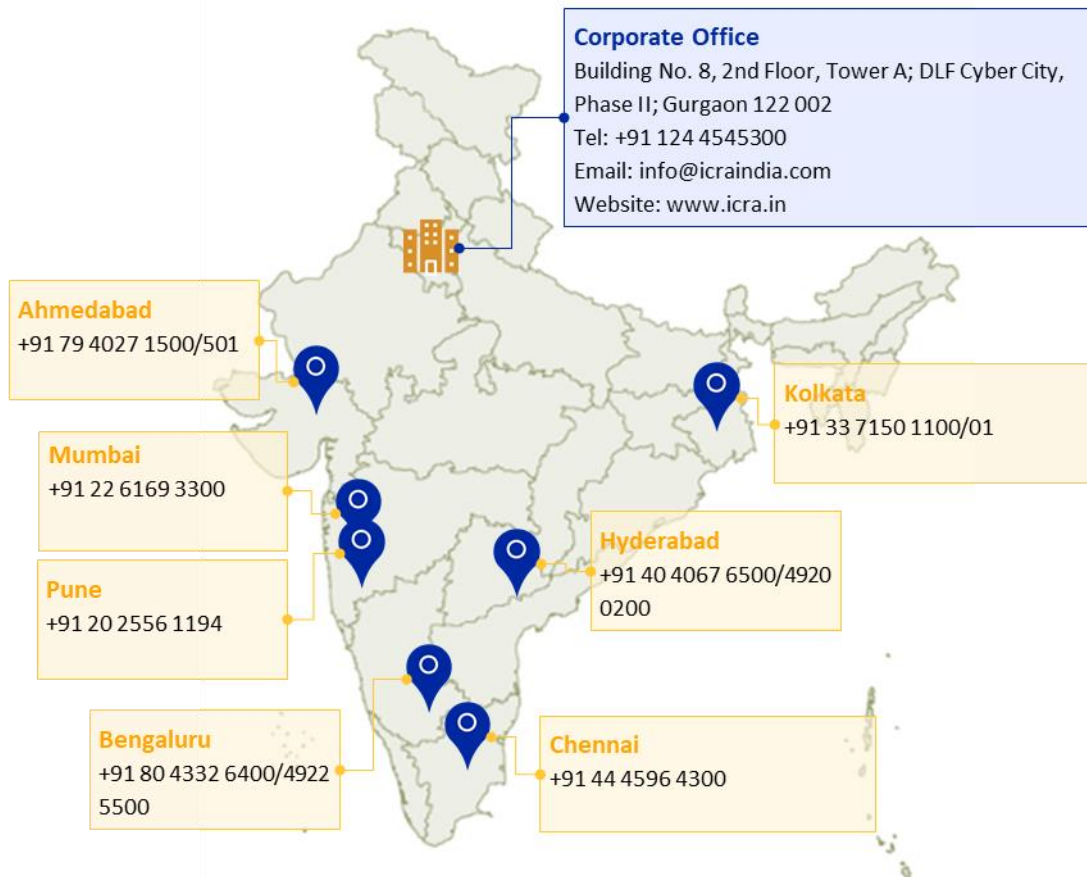
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