February 23, 2024

thyssenkrupp Industries India Private Limited: Placed on Rating watch with Developing Implications and Rated amount Enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based working capital limits	43.90	43.90	[ICRA]AA; Placed on Rating watch with Developing Implications
Long-term– Non-fund based working capital limits	1734.60	1954.60	[ICRA]AA; Placed on Rating watch with Developing Implications; assigned for enhanced amount
Total	**1778.50**	**1998.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of thyssenkrupp Industries India Private Limited (tkII) have been placed on watch with developing implications, following the proposed divestment process initiated by the majority shareholder thyssenkrupp AG (tkAG; rated Ba3/Positive by Moody's) for selling its entire 54.73% stake in tkII to a consortium of co-owners who are already invested in the company. A binding share purchase agreement (SPA) was signed earlier, and the closing of this disposal is expected in the current calendar year after fulfilment of the necessary closing conditions of the SPA, and other regulatory approvals. ICRA will continue to monitor the development on this transaction and take an appropriate rating action post the conclusion of the same. ICRA will also continue to monitor the impact of this transaction on the overall business profile of the company, if any, and the resulting changes in board of directors, management, shareholding, liquidity, branding, etc.

The ratings factor in the strong order inflow of Rs. 3,868 crore in FY2023 and Rs 1,241 crore during 9MFY2024 (Rs. ~2,400 crore expected for FY2024) for 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 FY2025 is likely to remain healthy, primarily driven by orders from the above end user industries. The company's robust order book position of Rs. 4,851 crore as on December 31, 2023 equates to ~2 times FY2023 revenues, providing it healthy medium-term revenue visibility.

The ratings continue to factor in tkII's long track record and established market position in the capital goods industry, both in the Indian and overseas markets supported by strong technical know-how of majority shareholder thyssenkrupp AG (tkAG; rated Ba3/Positive by Moody's). However, the dependence on the parent for operational or financial support is minimal. Further, with proposed change in shareholding, the Paharpur Group (flagship company Paharpur Cooling Towers Ltd) is likely to be the new majority shareholder.

ICRA continues to factor in its diverse business profile across sectors and strong position in the material handling equipment (MHE), boilers, cement and service divisions. The rating also factors in the comfortable financial risk profile as marked by a debt-free position, sizeable liquidity of Rs. 781.1 crore in addition to fund-based unutilised bank limits of Rs. 43.9 crore and unutilised non-fund based limits of Rs. 429.7 crore, as on December 31, 2023. While tkII's gearing remained robust in FY2023-9MFY2024, coverage indicators also remained strong and largely stable during the same period. Further, the company is expected to remain debt-free with strong liquidity over the medium term. However, any changes in the capital structure and liquidity position owing to the proposed shareholding change will remain a monitorable.

The rating, however, remains constrained on account of moderate albeit improving operating profitability. 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 despite 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 overseas markets.

tkAG hived-off its global mining business in FY2022 as a strategic measure to focus on identified areas while exiting the non-core business segments. The mining business of tkII was not part of the global hive-off, and tkII continued to secure healthy order inflows over the past three years 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 (of which ~1 year has elapsed), which provides healthy order intake revenue visibility over the medium term.

Key rating drivers and their description

Credit strengths

Healthy order-book position diversified across various operating segments - tkII has diversified its operations across five industry segments – sugar, material handling equipment (MHE), cement and energy, where it 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 had a healthy order book of Rs. 4,851 crore (~2 times FY20223 OI) as on December 31, 2023, which provides strong revenue visibility in the near to medium term. After healthy order intake of Rs 3,133 crore during FY2022, order intake during FY2023 was even stronger at Rs 3,868 crore. For comparison, average order intake for 4 years over FY2018-FY2021 stood Rs ~2,000 crore. Order inflow during 9MFY2024 stood at Rs 1240 crore. The healthy inflow of orders was on account of a strong order intake from the company's largest segments – boilers and MHE, followed by cement and services. tkII's presence in different verticals provides diversification to its revenue streams and insulates it from any industry-specific downcycle to some extent. 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. 781.1 crore as on December 31, 2023, which imparts a high degree of financial flexibility. The coverage indicators remained strong in the absence of any debt, with interest coverage of 11.6 times during FY2023. However, the OPM of the company remains susceptible to risk of timely execution and credit profile of the customer, which result in fluctuations in operating margin profile.

Strong track record of execution across a reputed and diversified clientele - tkII was incorporated in 1947 and has extensive experience in the capital goods industry. Besides executing projects in India, tkII is present in the international market with exports contributing ~8-10% to its total revenues in FY2022 and FY2023. ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past. The company's client base includes large private and Government entities.

Credit challenges

Moderate albeit improving operating margin profile - The company's OPM witnessed an improvement but it has been moderate at 6.4% during FY2023 as compared to 4.1% during FY2022. The OPM during FY2020-FY2023 was significantly lower than OPM of 9.2% achieved during FY2019. Lower profitability in FY2022 was driven by the impact of high raw material costs on various large projects amidst input cost inflation and time/cost over-runs in the wake of Covid-19, which couldn't be pass through completely to customers. The gradual OPM improvement over the past three years was partly on account of lower debtor provisions as well. ICRA expects the operating profitability to witness slight improvement over FY2024-FY2025 on account of expected closure of some of the loss-making projects during FY2024, increased scale of operations and stabilisation of input costs.

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 further increase the competition.

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 fluctuations 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. 781.1 crore and undrawn fund-based limits of Rs. 43.9 crore as on December 31, 2023, 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– ICRA will resolve the watch as more clarity emerges on the proposed change in shareholding. Further, improvement in operating margin above 8% supported by increased scale and strong order book position on a sustained basis, along with strong liquidity profile can result in favourable rating action.

Negative factors – ICRA will resolve the watch as more clarity emerges on the proposed change in shareholding. Any significant decline in order intake or revenues of the company and operating margin may lead to rating downgrade. Additionally, increased working capital intensity on a 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 Ba3/Positive 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 various segments. 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	FY2022	FY2023
Operating income	2544.3	2486.1
PAT	97.1	132.5
OPBDIT/OI	4.1%	6.4%
PAT/OI	3.8%	5.3%
Total outside liabilities/Tangible net worth (times)	1.3	1.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	12.9	11.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 23, 2024	Nov 30, 2022	Sept 30, 2021	Jul 31, 2020
1	Fund-based working capital limits	Long term	43.90	--	[ICRA]AA; Ratings watch with Developing Implications	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)
2	Non-fund based Working Capital Limits	Long term	1954.60	--	[ICRA]AA; Ratings watch with Developing Implications	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)

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 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 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; Ratings watch with Developing Implications
NA	**Long-term– Non-Fund Based Working Capital Limits**	NA	NA	NA	1954.60	[ICRA]AA; Ratings watch with Developing Implications

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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