December 19, 2024

TKIL Industries Private Limited: Ratings reaffirmed; Removed from Watch with Developing Implications; Stable outlook assigned

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 (Stable) reaffirmed; removed rating Watch with Developing Implications; Stable outlook assigned
Long-term– Non-fund based working capital limits	1954.60	1954.60	[ICRA]AA (Stable) reaffirmed; removed rating Watch with Developing Implications; Stable outlook assigned
Total	**1998.50**	**1998.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of TKIL Industries Private Limited (TKIL) have been removed from watch with developing implications following the completion of divestment of the entire stake of 54.73% by the earlier majority shareholder thyssenkrupp AG (tkAG; rated Ba3/Positive by Moody's), to a consortium of major investors/co-owners (Paharpur Group and Protos Group) who were already invested in the company since more than three decades. With the completion of the transaction, the thyssenkrupp brand is no longer associated with the company, and the same has been rebranded to TKIL Industries Private Limited, the impact of which over the medium term will be a key monitorable. Further, it already had in house technology in the boiler and sugar segments, while for mining and cement, there is a licensing arrangement with other brands, which continues even after the above-mentioned transaction.

The company's robust order book position of Rs. 4,919 crore as on September 30, 2024 equates to ~1.53 times FY2024 operating income (OI), thereby providing it a comfortable near-term revenue visibility.

The ratings continue to factor in TKIL's long track record and established market position in the capital goods industry, both in Indian and overseas markets, supported by expected business synergies with new majority shareholders - Paharpur Group (flagship company - Paharpur Cooling Towers Ltd). There is a high degree of customer overlap between TKIL and PCTL, especially in the Power/Energy sector, and the two companies might explore operational and business synergies going forward.

ICRA continues to factor in its diverse business profile across sectors and strong position in material handling equipment (MHE), energy and cement divisions. The company's order book position remains fairly diversified across various divisions - Material Handling Equipment (MHE), Energy, Cement, Sugar and Services.

The rating also factors in the comfortable financial risk profile as marked by a debt-free position, sizeable liquidity and unutilised bank limits of Rs. 43.9 crore and unutilised non-fund based limits of Rs. ~250 crore, as on September 30, 2024. TKIL's gearing remained robust in FY2024-H1FY2025, coverage indicators also remained strong and improved further during the same period due to higher OPBIDTA and slightly lower finance costs (including bank charges for utilisation of non-fund based limits). Further, the company is expected to remain debt-free with strong liquidity over the medium term.

During FY2025, TKIL has disbursed a special dividend of Rs 80 crores and executed a buyback of Rs.200 crore. The company has also made an investment in Swiss company Sohhytec SA, to the tune of Rs 60 Crores which would enable it to access technology to produce green hydrogen directly from solar energy. This has led to lower cash levels of around Rs. 388 crore as on Nov-2024 vis-a-is Rs. 834.5 crore as on Mar-2024. Any further changes in the capital structure and liquidity position owing to any new investment plans by the new promoters will remain a monitorable.

The rating, however, remains constrained on account of subdued operating profitability. Further, the operating profit margin (OPM) remains susceptible to challenges in project execution, coupled with vulnerability of profitability to raw material increases, given the fixed price nature of majority of contracts. TKIL institutes various measures to manage raw materials and execution costs through back-to-back contracts with vendors and adequate project scheduling. The pricing power is impacted by intensely competitive nature of the industry in both the domestic and the overseas markets.

Key rating drivers and their description

Credit strengths

Healthy order-book position reasonably diversified across various operating segments – TKIL 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.

The company's robust order book position of Rs. 4,919 crore as on September 30, 2024 equates to ~1.53 times FY2024 operating income (OI), thereby providing it a healthy near-term revenue visibility. While the order inflows were healthy at Rs. 3,868/3133 crore during FY2023/FY2022, the order inflows moderated to Rs. 2,132/1,253 crore during FY2024/H1FY2025. Order inflows during 9MFY2024 were curtailed due to sizeable order backlog and bunching up of execution of various large orders leading to some capacity constraints. Further, order inflows in Q4FY2024-H1FY2025 were impacted by elections and slowdown in the key end-user industries. However, given the strong enquiry pipeline and LOIs signed, order inflow during H2FY2025 is expected to be around Rs. 2,200 - 2,600 crore. TKIL'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. Longer term outlook remains healthy with the sizeable capex plans of the end-user industries such as cement, mining, ports, chemicals & fertilizers, sugar, among others.

Robust financial risk profile – The financial risk profile of TKIL has remained robust over the years, as reflected by its debt-free status and strong liquidity profile with total cash and cash equivalents of Rs. ~388 crore as on November 30, 2024 (including encumbered cash of Rs. ~130 crore expected to be released within ~6 months once consortium banking arrangement is finalised and accepted by all lenders), which imparts a high degree of financial flexibility. The coverage indicators remained strong in the absence of any debt, with interest coverage of 16.6 times during FY2024. 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 – TKIL was incorporated in 1947 and has extensive experience in the capital goods industry. Besides executing projects in India, TKIL is present in the international market with exports contributing ~5-10% to its total revenues over the past few years, and exports contribution has been coming down due to stronger domestic order inflows. ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past. The company's client base includes large reputed private and Government entities.

Credit challenges

Moderate albeit improving operating margin profile – The OPM remains subdued and declined further in FY2024 to 5.9% vs 6.5% in FY2023. The OPM has been adversely impacted by provisions of Rs. 53.9 crore in certain large projects and inventory write-downs. Slightly adverse segmental revenue mix and execution of legacy projects also contributed to margin decline. Going forward, there are no further inventory write-downs are expected. ICRA expects the operating profitability to witness slight improvement over FY2025-FY2026 on account of lower execution of loss-making projects and stabilisation of input costs. Hence, OPM is expected to gradually inch-up to ~6%/7% in FY2025/FY2026.

Intense competition in the industry – TKIL 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, TKIL's ability to ensure procurement of critical bought-out items and execute orders in a timely manner would remain crucial.

Liquidity position: Strong

TKIL's liquidity remained strong with cash and cash equivalents of Rs. ~388 crore as on November 30, 2024 (including encumbered cash of Rs. ~130 crore expected to be released within ~6 months once consortium banking arrangement is finalised and accepted by all lenders), and undrawn fund-based limits of Rs. 43.7 crore as on September 30, 2024 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. Further investments in technological licenses or acquisitions by the new promoters might bring down cash levels further.

Rating sensitivities

Positive factors – Improvement in operating margin 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 or significantly high debt-funded capex, 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

TKIL Industries Private Limited (TKIL), was earlier a part of thyssenkrupp AG (tKAG; rated Ba3/Positive by Moody's). tKAG divested its entire stake of 54.73% in May-2024 to a consortium of co-owners (Paharpur Group and Protos Group) who were already invested in the company since more than three decades. Paharpur Group has now become the new majority promoter (~57% stake). Paharpur Cooling Towers Ltd is the flagship entity of the Group and is the world's largest manufacturer of process cooling equipment with exports to over 60 countries around the world. The Group also has sizeable stake of ~29.26% in KSB Ltd (rated AA+/stable by ICRA. TKIL was incorporated in 1947 under the name of New India Development Corporation Limited in Pune, Maharashtra to manufacture machinery for sugar plants.

TKIL'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)

TKIL Standalone	FY2023	FY2024
Operating income	2446.2	3221.5
PAT	132.5	156.0
OPBDIT/OI	6.5%	5.9%
PAT/OI	5.4%	4.8%
Total outside liabilities/Tangible net worth (times)	1.4	1.1
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	11.6	16.6

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Dec 19, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based working capital limits	Long term	43.90	[ICRA]AA (Stable)	23-Feb-24	[ICRA]AA; Ratings watch with Developing Implications	30-Nov-22	[ICRA]AA (Stable)	30-Sep-21	[ICRA]AA (Stable)
Non-fund based Working Capital Limits	Long term	1954.60	[ICRA]AA (Stable)	23-Feb-24	[ICRA]AA; Ratings watch with Developing Implications	30-Nov-22	[ICRA]AA (Stable)	30-Sep-21	[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 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 (Stable)
NA	Long-term– Non-Fund Based Working Capital Limits	NA	NA	NA	1954.60	[ICRA]AA (Stable)

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

ANALYST CONTACTS

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

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Rohan Rustagi
+91 124 4545 383
rohan.rustagi1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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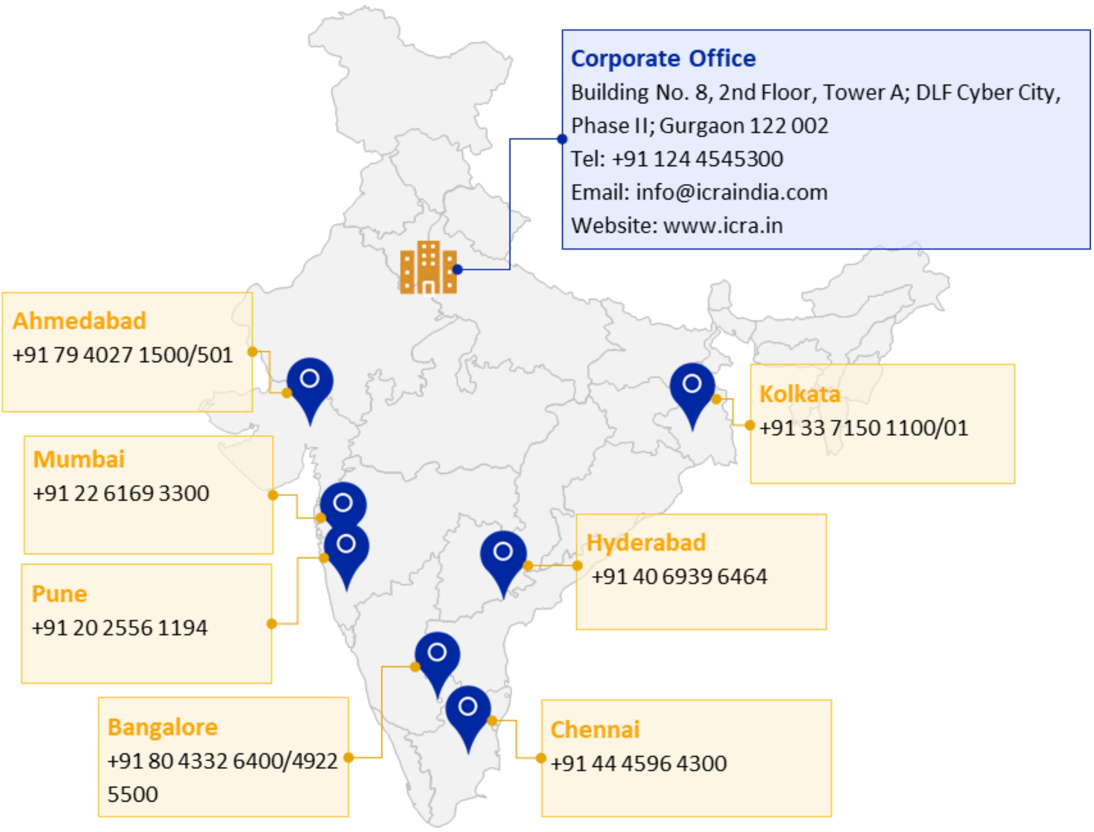
ICRA Limited

Registered Office

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

Branches



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