

Press Release

Titanium Equipment and Anode Manufacturing Company Private Limited

June 01, 2021



Rating Assigned

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 90.00 Cr. |
| Long Term Rating | ACUITE BBB+ / Outlook: Stable (Assigned) |
| Short Term Rating | ACUITE A2 (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.90.00 Cr bank facilities of Titanium Equipment & Anode Manufacturing Company Private Limited (TEAM). The outlook is '**Stable**'.

Titanium Equipment & Anode Manufacturing Company Private Limited (TEAM) is part of the TEAM group incorporated in 1975. The company is based in Chennai and its operations are managed by Mr. Suresh Krishnamurthi Rao (Managing Director). The Company is engaged in design and manufacturing of engineering equipment such as heat exchangers, Reactors, pressure vessels, Pumps & Blowers, Piping and custom designs as per end user requirements. TEAM has also ventured into other business segments such as ultra-filtration and water purification and distribution business. TEAM's engineering and UF Membrane divisions are located at Vandalur, Chengalpet, and Tamilnadu and which is spread across 7 Acres of land. Team is an ASME U, U2 & ISO 9001:2000 Certified Company. Its products are unique and applied in various industries like oil and gas/Pharmaceuticals/fertiliser/chemical/Power/Defense sectors. TEAM was reconstituted as a private limited company from public limited w.e.f. 10th, January 2020.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of TEAM to arrive at the rating.

Key Rating Drivers

Strengths

• Experience of promoters and established track record in industrial equipment business

TEAM, incorporated in 1975, engaged in design and fabrication of engineering equipment, such as high pressure titanium and stainless steel storage tanks/vessels and heat exchangers. In terms of revenue mix, around 75-80 percent from heat exchangers, 10-11 percent of UF Membrane and 9-10 percent of packed drinking water divisions. Its exports constitute about 33 percent of its total revenues over the last two years ending FY2020. The long track record of its operations and reputed customer profile and established relationships with its key customers, helped the company in procuring repeat orders from reputed corporates like Dangote Industries Limited, Indian Oil Corporation Limited, SRF Limited, Essar Oil Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, ANDRITZ AG among others. The company has a moderate order book position, which stood at Rs. 55 Cr as on March 31, 2021. Besides, the company has bid for a large number of orders amounting to about Rs.300 Cr providing revenue visibility for the near to medium term. Acuite believes that TEAM's business risk profile is expected to improve further over the medium term supported by industry experience and domain knowledge of the management, long-standing relationship with its clientele, geographical reach and long operational track record of operations.

• Healthy financial risk profile

TEAM financial profile is healthy as marked by healthy capital structure, healthy coverage indicators and healthy liquidity. The networth is healthy at around Rs 84.48 Cr as on March 31, 2020 as against Rs.75.85 Cr as on March 31, 2019, backed by steady accretion to reserves. The capital structure remains healthy with gearing of less than 0.37 times and Total outside Liabilities to Tangible Net Worth (TOL/ TNW) below 0.65

times for past three years through as on March 31, 2020 due to limited capex requirements and resulting in low external borrowings. The company's coverage indicators are healthy over the last three years indicated by interest coverage ratio (ICR) 6.12 times and Net Cash Accruals (NCA)/Total Debt (TD) stood healthy at 1.62 times for FY2020 vis-à-vis 4.74 times and 0.22 times respectively in FY2019. TEAM has adequate liquidity, supported by unencumbered cash and bank balances and liquid investments amounting to Rs. 19.74 Cr as on March 31, 2020. Acuité believes that financial risk profile should remain healthy over the medium term, supported by healthy accrual, nil long-term debt, and adequate liquidity with no significant debt-funded capital expenditure plans in near future.

Weaknesses

• Working Capital Cycle marked by high GCA days

The company's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days in the range of 278-391 days for past three fiscals ended FY2020 due to high debtor and inventory days given the nature of its operations. The inventory levels of the company have been historically high owing to the lengthy order execution cycle. GCA days were at high level driven by high inventory and debtor of 44-180 days and 136-188 days respectively for past three fiscals ended FY2020. Its creditor's days stood at 60-98 days for past three fiscals ended FY2020. Its working capital limits at about 25 percent over the past six months ended March 2021. Acuité believes that the working capital operations of the company will remain intense as evident from its high inventory levels; due to the time taken to execute the orders of heavy engineering equipment's resulting in the large working capital requirement and staggered deliverables.

• Exposed to volatility in prices of key raw materials and Strong competition from players

TEAM's raw material cost forms about 45–55% of its operating income and, hence, any adverse fluctuations in the cost of raw materials would have an impact on the company's operating profitability since its equipment supply contracts are fixed price in nature; although this risk is partly mitigated as the raw material price quotes are locked for a period of two-to three months once the order is awarded and the procurement of majority of the raw material is issued within that period. The award of orders from the target clientele is through open tendering process. The process equipment industry is highly fragmented, which exposes the company to intense competition from the domestic as well as international players and may induce pricing pressures. The company's revenue growth would remain dependent on the capex undertaken in the power, fertiliser, oil and gas sectors among other, which are its key demand drivers. Any slowdown in investments from these sectors would directly impact the revenue growth of TEAM.

• Moderate scale of operations with muted revenue growth

TEAM's reported revenue of Rs. 98.74 Cr in FY20 grew by ~14.50 percent as against FY19 and the company's scale of operations remains moderate. The impact of Covid-19 pandemic induced disruptions, on end-user industries affected the company's revenues in the FY2021; the revenues are expected to decline by 25-30 percent in FY2021. the revenue run rate is expected to recover to pre-Covid levels FY2022 onwards. Nevertheless, the outlook has moderated somewhat during the ongoing pandemic, with some companies deferring their capex, which could impact the future order inflows of TEAM. The TEAM's Operating margin has improved to 10.10 percent from 8.28 percent in FY2019. Acuité believes that TEAM's improvement of scale of operation along with profitability margins will be key monitorables going forward.

Liquidity Position: Adequate

TEAM's liquidity is adequate liquidity marked by healthy net cash accruals to its maturing debt obligations and efficient bank utilisation; albeit constrained by high gross current assets (GCA) days. The company generated cash accruals of Rs.6.34 Cr to 10.33 Cr during the last three years through 2018-20, while its maturing debt obligations were at Rs.1.25 Cr over the same period. The cash accruals are estimated to remain around Rs.5.50 Cr to 7.50 Cr during 2011-23 while their repayment obligations are miniscule during the same period. Its operations are highly working capital intensive with GCA of about 297 days in FY2020; comfortable cash accruals led to lower reliance on working capital borrowings at 25 per cent during the last 6 months period ended March 2021. The TEAM maintains unencumbered cash and bank balances of Rs.19.74 Cr as on March 31, 2020. The current ratio stood healthy at 2.50 times as on March 31, 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its repayment obligations and its internal accruals and liquid surplus to be sufficient to meet its incremental working capital requirements.

Rating Sensitivities

- Higher-than-expected operating income (OI) along with improvement in profitability
- Improvement in working Capital cycle

Material covenants

None

Outlook: Stable

Acuite believes that TEAM will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|----------|---------------|---------------|
| Operating Income | Rs. Cr. | 98.74 | 86.09 |
| PAT | Rs. Cr. | 8.74 | 4.77 |
| PAT Margin | (%) | 8.85 | 5.54 |
| Total Debt/Tangible Net Worth | Time0073 | 0.08 | 0.37 |
| PBDIT/Interest | Times | 6.12 | 4.74 |

Status of non-cooperation with previous CRA (if applicable)

TEAM has not cooperated with CRISIL Limited which has classified it as non-cooperative vide release dated 27-Aug-2020. The reason provided by CRISIL is non-furnishing of information for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|---|------------------|----------------|----------------|-----------------------------|-------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 [#] | ACUITE BBB+/Stable (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 [@] | ACUITE BBB+/Stable (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 16.00 ^{&} | ACUITE BBB+/Stable (Assigned) |
| Letter of Credit (LC) /Foreign Letter of Credit (FLC) | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A2 (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 20.00 [*] | ACUITE A2 (Assigned) |

| | | | | | |
|----------------|----------------|----------------|----------------|---------|----------------------|
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 15.00\$ | ACUITE A2 (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 24.00^ | ACUITE A2 (Assigned) |

One way interchangeability of Rs.2.50 Cr from fund Based to Non fund based

* One way interchangeability of Rs.10 Cr from BG to LC

@PSFC/PCFC/FBD/PSC/EPC sub limit to Rs.5.00 Cr Cash Credit

\$LC/FLC/SBLC sublimit Rs.15 Cr to BG

& PSFC/PCFC//EPC/Line of Credit Rs.16 Cr sub limit to Cash Credit

^ LC/FLC/SBLC sublimit Rs.10 Cr to BG and LC Rs.5.00 Cr sublimit to cash Credit

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About Acuité Ratings & Research:

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