TECHNO ELECTRIC & ENGINEERING COMPANY LIMITED

(Formerly known as *Simran Wind Project Limited*)

Corporate Office: 1B, Park Plaza, South Block, 71,Park Street, Kolkata - 700016
Tel:(033) 4051-3000, Fax : (033) 4051-3326, Email : techno.email@techno.co.in
CIN: L40108UP2005PLC094368

ENGINEERS & CONSTRUCTORS

November 30, 2019

National Stock Exchange of India Ltd.	**BSE Limited**
5th floor, Exchange Plaza	Department of Corporate Services
Bandra – Kurla Complex	Phiroze Jeejeebhoy Towers
Bandra (East)	Dalal Street,
Mumbai - 400 051	Mumbai – 400 001
NSE CODE : TECHNOE	BSE CODE - 542141

Dear Sir/ Madam,

Re: Reaffirmation of Long term credit rating of [ICRA]AA (pronounced ICRA Double A) and short-term rating of [ICRA]A1+ (pronounced ICRA A One Plus).

This is to intimate you that ICRA has reaffirmed the long-term rating of **[ICRA]AA** (pronounced ICRA Double A) and short-term rating of **[ICRA]A1+** (pronounced ICRA A One Plus). The Outlook on the long-term rating is Stable.

Thanking you,

Yours faithfully,

For **Techno Electric & Engineering Company Ltd.**

(Niranjan Brahma)
Company Secretary (A-11652)

November 29, 2019

Techno Electric & Engineering Company Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Facilities	201.00	198.00	[ICRA]AA(Stable) reaffirmed
Non-Fund Based Facilities	334.00	424.00	[ICRA]AA(Stable) reaffirmed
Fund Based Facilities	(289.00)**	(309.00)**	[ICRA]AA/Stable reaffirmed
Non-Fund Based Facilities	(250.00)^^	(250.00)^^	[ICRA]AA/Stable reaffirmed
Non-Fund Based Facilities	1105.00	1305.00	[ICRA]A1+ reaffirmed
Fund Based Facilities	(50.00)***	(50.00)***	[ICRA]A1+ reaffirmed
Total	**1640.00**	**1927.00**	

***sublimit of Rs. 334 crore long term non- fund based and Rs. 230 crore short term non-fund based facilities*
^^sublimit of Rs. 160 crore long term fund-based and Rs. 90 crore short term non-fund based facilities
****sublimit of Rs. 90 crore short term non-fund based facilities*
**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in TEECL's established track record in the EPC[1] business, backed by its strong execution capabilities, along with expertise in the design, engineering and commissioning of extra-high voltage (EHV) installations, as well as specialty industrial systems. Over the years, the margins from TEECL's EPC business have been better than its peers, which reflect the company's ability to deliver projects on time, while tightly controlling costs and efficiently managing working capital. The rating reaffirmation also factors in the traction in TEECL's order inflows in the current year, which gives revenue visibility for around two and a half years. After a thin order pipeline in FY2019, rise in fresh orders in H1 FY2020 is expected to lift TEECL's execution momentum in H2 FY2020 and FY2021. The ratings are, however, constrained by the company's exposure to sectoral and client concentration risks, with the transmission & distribution (T&D) sector accounting for around 84% of the order book, and the top three clients accounting for 50% of the order book as on September 30, 2019. The performance of the industrial EPC segment, which typically yields superior margins, has started picking up off late, in a limited way, especially in the contracts for installation of flue gas desulphurisation (FGD) systems, and the company's ability to diversify its order book across multiple sectors and clients remains a key rating driver. Nevertheless, TEECL's reputed client profile in the EPC business limits its counterparty risks. The ratings are also constrained by the sharp build-up of debtors in the wind division due to delayed payments from Tamil Nadu Generation & Distribution Corporation Limited (TANGEDCO), and a steep 31% year-on-year (YoY) reduction in tariff rates for the 111.9-MW power supply to TANGEDCO in the current fiscal, which would adversely impact the earnings and cash flows from renewable energy generation going forward. ICRA notes that TEECL has partly parked its surplus funds in various portfolio management schemes having a concentrated investment pool of 20-25 nos. debt securities, some of which are illiquid, exposing the company to counterparty risks associated with their timely recoverability. That said, TEECL's unencumbered cash and bank balance, along with investments in liquid mutual funds remains sizeable, which supports its liquidity profile. The rating further derives strength from TEECL's comfortable financial profile, supported by healthy return on capital employed, consistently positive free cash flows, and debt free status at present. Over the years, TEECL has channelised bulk of the underlying free cash flows in retiring debt, which declined from Rs. 668 crore in FY2013 to Rs. 7 crore in H1 FY2020, and nil in end October 2019. ICRA expects TEECL's healthy order book position,

[1] EPC: Engineering, Procurement & Construction

reputed client profile, comfortable liquidity profile, and healthy profitability from operations to support its credit profile in the near to medium term.

Key rating drivers and their description

Credit strengths

Demonstrated track record in the EPC business – Established in 1963, TEECL has a long track record of operating as an EPC contractor in the power generation, transmission and distribution, and industrial segments for over 50 years. In addition, TEECL has experience in the execution of substation/transmission projects under BOOT/BOOM[2] models. TEECL's EPC service delivery capabilities range from providing turnkey customised packaged solutions, with a high service component (including design and engineering), executing turnkey captive power plant projects (of up to 100 MW), sub-station/switchyard projects of up to 765 KV, distribution projects under RGGVY[3] and RAPDRP[4] schemes, as well as specialised industrial jobs, like design of high intensity power systems for aluminium smelter pots, fuel oil systems, and off-site piping systems, among others.

Operating margins in the EPC business remain better than peers, demonstrating strong execution capability – TEECL's operating margins from the EPC business has ranged from 15% - 18% between FY2015 and FY2019. ICRA notes that TEECL's margins are considerably higher than its peers, which demonstrates strong execution capability. TEECL stands among only a limited number of players that have demonstrated capability in executing 765 KV sub-station/switchyard projects, which remains an important revenue driver for the company. Moreover, with competitive intensity being much lower in this segment, profitability in such projects remain much higher than in the 132 KV to 400 KV segment.

Uptick in order inflows in H1 FY2020 is expected to support higher execution in H2 FY2020 and FY2021 – For TEECL, FY2019 was expected to be a year of growth in the EPC business. However, it turned out to be a year of consolidation, where the focus was on closing contracts, releasing debtors and last-mile retention payments, and preserving the free cash flows despite a YoY decline in FY2019 profits. In the current year, the traction in fresh order inflows has picked up sharply, with additions of Rs. 1572 crore (including Rs. 300 crore L1 order) in H1 FY2020, against an addition of Rs. 509 crore in FY2019.

Reputed client profile, limiting counterparty risks and ensuring early realisation of receivables - By selectively bidding for projects having a strong sponsor, and/or secured funding lines, TEECL is able to achieve a faster cash collection cycle over its peers.

Comfortable financial profile, supported by healthy return on capital employed, consistently positive free cash flows, debt free status[5], and healthy liquidity - TEECL's core return on capital employed (core RoCE) has remained at a comfortable range of 24% - 28% between FY2017 and FY2019, supported by healthy earnings from the EPC and wind businesses. Over the years, TEECL has channelised bulk of the free cash flows in retiring debt, which declined from Rs. 668 crore in FY2013 to Rs. 7 crore in H1 FY2020, and nil in end October 2019. In addition, TEECL has a sizeable liquid investment balance and large undrawn fund-based cash credit lines which strengthens its liquidity profile.

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[2] BOOT: build, own, operate, transfer; BOOM: build, own, operate, maintain

[3] RGGVY: Rajiv Gandhi Grameen Vidyutikaran Yojana

[4] RAPDRP: Restructured Accelerated Power Development & Reforms Programme

[5] In October 2019, TEECL has repaid the Rs. 7 crore debt outstanding as on September 30, 2019

Credit challenges

Sectoral and client concentration risks – TEECL has high client and sectoral concentration risks. ICRA notes that in the last 3 years, the share of orders from Power Grid declined to 21% in September 2019 from 80% in September 2016. However, notwithstanding the decline, TEECL's client concentration remains high, with the top three clients accounting for 50% of the order book as on September 30, 2019. This apart, though some traction has been noticed in the industrial segment with the bagging of the first flue gas desulphurisation (FGD) order in the current fiscal, 84% of the outstanding orders as on September 30, 2019 was from the transmission & distribution segment, leading to sectoral concentration risks as well.

Sticky debtors in the wind business due to delayed payments from TANGEDCO tempering free cash flows – TEECL's outstanding debtors from the wind business has ballooned to Rs. 167 crore in H1 FY2020 from Rs. 83 crore in FY2018. This increase has been largely due to delayed payments by TANGEDCO by over a year.

Significant reduction in tariff for 111.9-MW wind assets in Tamil Nadu from the current fiscal to moderate the earnings from the wind division going forward – The effective tariff from TEECL's 111.9 MW wind assets in Tamil Nadu for supply to TANGEDCO has been reduced to Rs. 2.15/unit from Rs. 3.12/unit prevailing earlier. This, coupled with the expiry of generation-based incentives (GBI), is expected to lead to a moderation in earnings from the wind division going forward. ICRA notes that the effect of this tariff reduction would not be pronounced in the current fiscal, with the company receiving the benefit of a one-time settlement of Rs. 23.5 crore for delayed payments by TANGEDCO in Q2 FY2020. The impact of the tariff reduction is expected to pull down the wind division's profits in FY2021.

Sizeable exposure to debt securities of companies having a weak credit profile, exposing the company to risks associated with timely recoverability – As on September 30, 2019, TEECL has partly parked its surplus funds in various portfolio management schemes having a concentrated investment pool of 20-25 nos. debt securities. ICRA notes that the company is exposed to the risks associated with the timely recoverability associated with the illiquid nature of these securities and current credit market scenario prevailing at present.

Liquidity position: Strong

TEECL's liquidity is **strong**, supported by consistent free cash flows, debt free status, and sizeable cash & liquid investment profile. As on September 30, 2019, TEECL's EPC and wind generation business had a net operating working capital of Rs. 384 crore, which was entirely funded from internal resources. TEECL had undrawn working capital bank lines accumulating to around Rs. 198 crore as on September 30, 2019, which further strengthens its liquidity profile.

In FY2019, despite a 23.6% YoY decline in the consolidated operating income, TEECL's free cash flows increased to Rs. 259 crore in FY2019 from Rs. 231 crore in FY2018, supported by a significant reduction in receivables. In the current fiscal, supported by an expected uptick in execution in H2 FY2020, the consolidated free cash flows are projected at around Rs 251 crore for FY2020 full year, against which the debt service obligation is a nominal Rs 24 crore. Moreover, by selectively bidding for projects having a strong sponsor, and projects having secured funding lines, TEECL's is able to achieve a faster cash collection cycle over its peers, which also support its liquidity profile.

Rating sensitivities

Positive triggers –

- Decline in sectoral and client concentration risks, which, among other factors, could be driven by a sustainable uptick in order inflows from the industrial segment
- A significant increase in the scale of operations, while maintaining healthy debt protection metrics, and a comfortable liquidity position

Negative triggers –

- Continuous increase in receivables from TANGEDCO, leading to a deterioration in liquidity profile
- Any potential execution challenges in the ongoing projects, which could lead to BG invocation and a consequent material deterioration in its liquidity profile
- Any large debt-funded growth plan, which leads to a marked deterioration in debt protection metrics, and negative free cash flows after meeting scheduled debt repayments

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Rating Methodology for Wind Power Producers
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of TEECL

About the company

TEECL undertakes turnkey EPC contracts with a focus on the power sector. The company provides EPC services to all the three segments of the power sector – generation, transmission, and distribution. The bulk of the company's activities are, however, focused on the design and erection of substations and switchyards up to 765 KV. Apart from the T&D segment, TEECL also has EPC expertise in the industrial segment, which includes erection of turnkey balance of plant packages for captive power plants upto 100 MW, industrial systems like high intensity power systems for aluminium smelters, and installation of flue gas desulphurisation systems, among others. In addition, TEECL owns wind power assets of 129.9-MW in Tamil Nadu and Karnataka.

In H1 FY2020, on a provisional basis, the company reported a net profit of Rs. 143.03 crore on an operating income of Rs. 501.25 crore compared to a net profit of Rs. 191.01 crore on an operating income of Rs. 988.64 crore in FY2019.

Key consolidated financial indicators (audited)

	FY2018	FY2019	H1 FY2020 (Provisional)
Operating Income (Rs. crore)	1,294.36	988.64	501.25
PAT (Rs. crore)	200.29	191.01	143.03
OPBDIT/OI (%)	23.24%	25.54%	33.31%
RoCE (%)	19.70%	18.51%	21.76%
Total Outside Liabilities/Tangible Net Worth (times)	0.56	0.41	0.40
Total Debt/OPBDIT (times)	0.22	0.18	0.02
Interest Coverage (times)	12.14	18.86	51.51
DSCR (excl. STD/Prepayments)	2.30	4.50	10.17

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding As on 30.09.2019	Rating	FY2019		FY2018	FY2017
					29-Nov-2019	9-May-2018	20-Apr-2018	12-Jul-2017	6-Mar-2017
1	Fund Based Facilities	Long Term	198.00	0.00	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA -/Positive	[ICRA]AA -/Positive
2	Non-Fund Based Facilities	Long Term	424.00	NA##	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA -/Positive	[ICRA]AA -/Positive
3	Fund Based Facilities	Long Term	(309.00)**	NA	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA -/Positive	[ICRA]AA -/Positive
4	Non-Fund Based Facilities	Long Term	(250.00)^^	NA	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA/Stable	[ICRA]AA -/Positive	[ICRA]AA -/Positive
5	Non-Fund Based Facilities	Short Term	1305.00	876.00##	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fund Based Facilities	Short Term	(50.00)***	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Non-Convertible Debenture	Long Term	0.0	0.00	-	-	[ICRA]AA/Stable* (Withdrawn)	[ICRA]AA -/Positive	[ICRA]AA -/Positive

***sublimit of Rs. 334 crore long term non- fund based and Rs. 230 crore short term non-fund based facilities*
^^sublimit of Rs. 160 crore long term fund-based and Rs. 90 crore short term non-fund based facilities
****sublimit of Rs. 90 crore short term non-fund based facilities*
Amount in Rs. Crore; NA: Not Available; ##Combined utilization of short-term and long-term non-fun based limits was Rs. 876.00 crore as on September 30, 2019

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund Based Facilities	-	-	-	198.00	[ICRA]AA/Stable
-	Non-Fund Based Facilities	-	-	-	424.00	[ICRA]AA/Stable
-	Fund Based Facilities	-	-	-	(309.00)**	[ICRA]AA/Stable
-	Non-Fund Based Facilities	-	-	-	(250.00)^^	[ICRA]AA/Stable
-	Non-Fund Based Facilities	-	-	-	1305.00	[ICRA]A1+
-	Fund Based Facilities	-	-	-	(50.00)***	[ICRA]A1+

Source: Company data

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Techno Infra Developers Private Limited	100.00%	Full Consolidation
Techno Green Energy Private Limited	99.96%	Full Consolidation
Techno Clean Energy Private Limited	99.96%	Full Consolidation
Techno Wind Power Private Limited	99.96%	Full Consolidation
Techno Power Grid Company Limited	100.00%	Full Consolidation
Rajgarh Agro Products Limited	96.10%	Full Consolidation
Jhajjar KT Transco Pvt Limited	49.00%	Equity Method
Kohima Mariani Transmission Company Limited	26.00%	Equity Method

Source: Company Annual Report for FY2019

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Ritabrata Ghosh
+91 33 7150 1107
ritabrata.ghosh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22-61143406
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

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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999