Press Release

Toyo Engineering India Private Limited
January 04, 2021

Ratings

<table>
<thead>
<tr>
<th>Facilities/Instruments</th>
<th>Amount (Rs. crore)</th>
<th>Ratings</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term / Short Term Bank Facilities</td>
<td>2882.50 (Enhanced from 2,627.00)</td>
<td>CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus )</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Total Bank Facilities</td>
<td>2882.50 (Rs. Two Thousand Eight Hundred Eighty-Two Crore and Fifty Lakhs Only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers
The ratings assigned to the bank facilities of Toyo Engineering India Private Limited (TEIPL) continue to factor strong parentage of Toyo Engineering Corporation (TEC), Japan and TEIPL’s strategic importance for TEC due to availability of skilled manpower for engineering consultancy business. The ratings continue to factor TEIPL’s established market position in the Engineering, Procurement and Construction (EPC) and EPC management (EPCM) segments in India, growth in scale of operations of the company in FY20 (refers to the period April 1 to March 31) backed by proven execution capabilities in the oil & gas, fertilizer sector, petrochemical segments and cryogenics involving high degree of complexities, low leverage, healthy debt coverage indicators and adequate liquidity indicators. TEIPL has not availed any of the moratorium granted as COVID-19 relief measures permitted by Reserve Bank of India (RBI).

The rating strengths are however, partially tempered by high order-book concentration, fluctuation in revenue based on order execution, moderate profitability, working capital intensive operations, exposure to volatility in raw material prices associated with fixed price lump sum size turnkey contracts (LSTK) and competition in EPC segment. The ratings take cognizance of the relatively slow progress in the execution of one LSTK contract awarded by HPCL Shapoorji Energy Private Ltd (HSEPL) due to impact of COVID-19 pandemic. Further, the credit profile of one of the JV partners has moderated and hence the timely completion of the project is a key rating sensitivity.

Rating Sensitivities
Positive Factors
- Resolution of execution challenges in HSEPL leading to sustenance of TOI while maintaining profitability and managing working capital requirements.
- Enhanced revenue visibility with improvement in the order book concentration
- Significant improvement in the gross current asset days to around 180 days on sustained basis due to release of retention money for completed projects and good collection efficiency in existing projects

Negative Factors
- Increase in project execution hurdles and adverse movement in steel prices leading to significant reduction in profitability
- Elongation in gross current asset days beyond 270 days on sustained basis.
- Reduced strategic importance for TEC or divestment of controlling stake by the parent in the company in the future

Detailed description of the key rating drivers

Key Rating Strengths

Well established track record in execution of orders involving high degree of complexities
TEIPL was established on October 12, 1981 and it is engaged in EPC and project management consultancy (PMC) services. The company has an exceptional track record in executing complex projects such as petroleum refineries, petrochemicals, fertilizers etc. The company carries out execution of orders of its parent company; Toyo Engineering Corporation's (TEC) with select projects in India and overseas. Mr. Yukihiro Akimoto, Managing Director, heads the team of experienced and qualified professionals who manage the day to day operations of the company.

TEIPL provides Project Management Consultancy (PMC) and has ability to execute large complex engineering projects on LSTK (Lump-Sum Turn-Key) i.e. from concept-to-commissioning with engineering and support departments being equipped with state-of-the-art engineering manpower pool, tools and skills, and requisite infrastructure. The company
has executed various complex and large engineering projects on turnkey basis across hydrocarbon sector, Cryogenics, Power, fertilizers and related to various other Industrial applications.

**Strong parentage and strategic importance of TEIPL for its parent**
Toyo Engineering Corporation Japan, (TEC) is the holding company (with equity stake of 98.9%) of TEIPL, which is its Indian engineering subsidiary. TEC is involved in construction of industrial plants including chemicals, fertilizer, oil refining, petrochemical and nuclear plants having presence across various countries. TEC is involved in construction of industrial plants and also has proprietary technology related know-how especially in the field of chemicals, fertilizer, oil refining, petrochemical and solar/nuclear plants. It has presence across various regions such as Asia, Middle East, Europe, Russia and North & Latin America with major presence in countries like Malaysia, Thailand and Japan. The company besides having strong presence in the Asia Pacific region holds a leadership position in the EPC activities in Japan TEC has strong technological, managerial and financial linkages with TEIPL. It is the biggest arm of TEC and for all major fertilizer, Oil and Gas, Petrochemicals and other big engineering projects worldwide, it takes manpower and engineering support from Toyo India due to cost effectiveness of technically skilled manpower in India. TEIPL benefits from TEC's technical expertise and engineering capabilities. Besides extending guidance and management support to TEIPL, the parent company also provides guarantee for projects executable by TEIPL, if required as per the bid documents. TEIPL’s revenue from consultancy was Rs. 328.46 Crore in FY20, the majority of which were pertaining to orders received from the parent company.

TEC posted revenues of Rs. 15,521 Crore for the year ended March 31, 2020 (Rs. 19,090 Crore in FY19). The PAT was Rs. 117.74 Crore in FY20 (Net Loss of Rs. 48.21 Crore in FY19)

**Comfortable leverage and strong debt coverage indicators**
TEIPL's capital structure continues to remain healthy with zero bank debt as on September 30, 2020. In FY20, the company received mobilization advances (Largely interest free) of Rs. 327.47 crore, resulting in lower dependence on working capital limits from Banks/FIs. The Overall gearing, which includes Liability on account of Finance lease, and Mobilization Advances (largely interest free), improved from 0.73x as on March 31, 2019 to 0.36x as on March 31, 2020 on account of recovery of mobilization advances due to completion of the Chambal Fertilizers and Chemicals project (CFCL) and reversal of earlier provisions due to settlement of dues with the customers. TOL/TNW also improved from 1.76 times as on March 31, 2019 to 1.24 times as on March 31, 2020. The Interest Coverage ratio continued to remain healthy at 22.73x in FY20 (26.80x in FY19) due to availability of largely interest free mobilization advances. Going forward, any significant deterioration in gearing levels is a key rating sensitivity

**Growth in scale of operations due to strong project execution capability albeit with moderate profitability**
In FY20, the company reported 29% YoY increase in total operating income from Rs. 1768.62 crore in FY19 to Rs. 2289.45 crore in FY20. It is on account of execution of large size EPC projects. PBILDT margins of TEIPL remained moderate at 5%-6% except for FY19 being exceptional in nature. It is on account of competition in the EPC segment and commodity price as well as foreign exchange volatility risk. TOI declined by 12.5% during H1FY21 as compared to H1FY20 on account of COVID-19. However, labour availability has improved substantially post October 2020 as articulated by the management which in turn is expected to pick up the pace of execution.
Thus, a healthy order book and demonstrated execution abilities lend medium term revenue visibility for TEIPL and provides execution comfort.

**Key Rating Weaknesses**
**High concentration in the order book**
The order book position as on September 30, 2020 stood at Rs. 3,711.55 crore which is around 1.6 times the FY20 income thereby providing medium to short term revenue visibility. The Order book constituted orders worth Rs. 3,341 crore from EPC segment and Rs. 367.9 crore from the consultancy segment. Nevertheless, TEIPL’s order book concentration risk remains high with 3 Orders viz. HPCL Rajasthan Refinery Limited (HRRL) contributing 39%, HPCL Shapoorji Energy Private Limited (HSEPL) contributing 32%, and Hindustan Urvarak and Rasayan Limited (HURL) contributing 19% of the total order book of Rs. 3,711.55 crore as on September 30, 2020. Hence, there is concentration risk in order book as the company's performance is largely dependent on timely execution, key milestone achievement and timely receipt of payments from these clients.

While HURL and HRRL are progressing on time, HSEPL is progressing relatively slowly on account of impact of Covid 19 and moderation in credit profile of one of the sponsors of HSEPL. Going forward, any adverse impact of HSEPL project on the scale of operations, profitability and working capital intensity of TEIPL is the key rating sensitivity

**Working capital intensive operations**
TEIPL operates in a business which is highly working capital intensive. While TEIPL’s receivables have increased from Rs. 1013.5 Crore (out of which retention receivables is Rs. 26.94 Crore) at end-FY19 to Rs. 1231 Crore at end-FY20 (Retention Receivables is Rs. 291.65 Crore), the debtors have reduced from Rs. 918.57 Crore in FY19 to Rs. 619.86 Crore in FY20.
despite growth in scale of operations. Gross Current Asset (GCA) Days though improved from 271 days during FY19 to 233 days during FY20; it continued to remain high. TEIPL envisages significant release of retention money over next one year upon completion of HURL project. TEIPL funds its large working capital requirement through trade payables with subcontractors and interest free mobilization advances.

**Competition in EPC segment and price volatility risk in LSTK EPC projects**

TEIPL remains exposed to risks arising out of cyclical and intense competition in the EPC and EPCM segments, which can result in volatility of the operating margin. The company’s TOI depends on capex plans of companies operating in the end-user industries including Oil & Gas, Petrochemicals, Fertilizers, Infrastructure etc., which further depends on economic scenario and outlook on the sector. This can have a direct impact on the order book of TEIPL. The principal raw material for TEIPL is structural steel which makes it exposed to the fluctuations in the prices of steel. Further, some of the components or equipment in LSTK contracts are imported which also exposed the company to inherent foreign exchange fluctuation risk. While hedging practice for price of steel in tune with the LME Index partly mitigate the price volatility risk.

**Liquidity: Adequate**

Liquidity position is adequate despite working capital intensive operations. It has cash and cash equivalents of about Rs. 68 Crore as on September 30, 2020. Further, it has nil utilization of its sanctioned fund-based limits of Rs.350 crore in the last 2 years.

**Analytical approach: Standalone**

**Applicable Criteria**

- Criteria on assigning Outlook to Credit Ratings
- CARE’s Policy on Default Recognition
- Criteria for Short Term Instruments
- Factoring Linkages in Ratings
- Rating Methodology – Construction Sector
- Financial ratios – Non-Financial Sector
- Liquidity Analysis of Non-financial Sector entities

**About the Company**

Toyo Engineering India Pvt. Limited (TEIPL) is a majorly owned subsidiary of Toyo Engineering Corporation, Japan (TEC, holding 98.9% equity stake and balance is with Toyo Engineering Ltd employee Trust). The company is engaged in Engineering, Procurement and Construction (EPC) and Project Management Consultancy (PMC) services for customers in the oil & gas, refinery, fertilizer, petrochemicals and infrastructure sector.

**Brief Financials (Rs. crore)**

<table>
<thead>
<tr>
<th></th>
<th>FY19 (A)</th>
<th>FY20 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>1,768.62</td>
<td>2,289.45</td>
</tr>
<tr>
<td>PBILDT</td>
<td>289.32</td>
<td>117.26</td>
</tr>
<tr>
<td>PAT</td>
<td>184.4</td>
<td>125.69</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>0.73</td>
<td>0.36</td>
</tr>
<tr>
<td>Interest Coverage (times)</td>
<td>26.19</td>
<td>22.73</td>
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</tbody>
</table>

*A: Audited
Classification as per CARE Standards*

Based on provisional results for six months ended September 30, 2020, TEIPL reported TOI of Rs. 766.83 crore and PAT of Rs. 20.25 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated facility:** Not applicable
Annexure-1: Details of Instruments/Facilities

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
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</thead>
<tbody>
<tr>
<td>Fund-based/Non-fund-based-LT/ST</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2882.50</td>
<td>CARE A+; Stable / CARE A1+</td>
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Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Current Ratings</th>
<th>Rating history</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Type</td>
<td>Date(s) &amp; Rating(s) assigned in 2020-2021</td>
</tr>
<tr>
<td>1</td>
<td>Fund-based/Non-fund-based-LT/ST</td>
<td>LT/ST</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2882.50</td>
<td>CARE A+; Stable / CARE A1+</td>
</tr>
</tbody>
</table>

Annexure 3: Complexity level of various instruments rated for this Company

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument</th>
<th>Complexity Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fund-based/Non-fund-based-LT/ST</td>
<td>Simple</td>
</tr>
</tbody>
</table>

*Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*
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