

## Thermal Systems Hyderabad Private Limited

October 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	65.97 (Enhanced from 55.97)	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	244.03 (Enhanced from 204.03)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Thermal Systems Hyderabad Private Limited (TSPL) derive strength from experienced promoters with long track record of operations, improving scale of operation y-o-y, healthy order book position providing medium term revenue visibility, reputed clientele and comfortable financial risk profile characterised by satisfactory leverage and coverage indicators. However, rating strengths are partially offset by moderate profitability margins, working capital intensive operations with significant reliance on bank guarantee limits and cyclical industry.

The company's total operating income (TOI) improved significantly in FY24 to ₹508.73 crore from ₹337.85 crore, considering timely execution of orders in hand and inflow of orders that increased due to uptick in demand of industrial capex for waste heat recovery systems. Improvement in TOI was complimented by better profitability and satisfactory leverage and coverage metrics.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- TOI improving to above ₹750 crore while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of above 10%.
- The company's ability to timely execute existing order book while bagging more orders on a regular basis.

#### Negative factors

- Decline in scale of operations by over 25% y-o-y or in comparison to envisaged level and decline in PBILDT margin to below 6%.
- Higher than envisaged debt leading to deterioration in overall gearing beyond 0.75x.
- Elongation of operating cycle beyond 200 days impacting the company's liquidity profile and leading to high reliance on working capital borrowings.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the favourable industry demand prospects and extensive experience of promoters in the business.

### Detailed description of key rating drivers:

#### Key strengths

##### Increasing trend of revenue backed by healthy order inflow

The company's total operating income (TOI) reported a growth at compound annual growth rate (CAGR) of 32.53% in FY20-FY24 while registering a significant jump by ~62% y-o-y in FY23 primarily backed by increasing demand of industrial capex, considering waste heat recovery systems and improvement in order inflow and timely execution. Furthermore, TSPL expects revenues in the range of ₹560 crore to ₹690 crore in FY25 and FY26, respectively, supported by healthy order book position of ~₹945 crore as on August 31, 2024, which translate to 1.87x of revenues earned by the company in FY24. The contract's tenure generally in the range of 12 -15 months which indicates medium term revenue visibility.

#### Satisfactory financial risk profile

The company's capital structure stood satisfactory marked by comfortable overall gearing of 0.03x as on March 31, 2024, considering nil o/s of working capital limit and miniscule term loan. However, owing to significant advances received towards procurement of raw material which are partially backed by BGs, resulted in moderated total outside liability to total net worth (TOL/TNW) of 1.84x as on March 31, 2024 (2.10x as on March 31, 2023). Considering these advances from customers as debt

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

the adjusted overall gearing stands at 0.58x on March 31, 2024 (0.22x on March 31, 2023). However, interest coverage ratio stood healthy and improved to 5.56x in FY24 (PY 5.04x) with better profitability.

#### **Reputed clientele and long-standing relationship with suppliers**

TSPL provide waste heat recovery solutions to reputed clients in varied industry such as carbon black, power plants, steel, sulphuric acid plants, refineries and non-ferrous. Further TSPL procure raw material from domestic suppliers such as ISMT Limited, Jindal Saw Limited, Jindal Steel and Power Limited, Maharashtra Seamless Limited, which is ~50% of material cost. Long standing relationship with suppliers help the company in procurement of raw material on timely manner resulting in timely completion of orders.

#### **Presence across sector and geographies**

TSHPL has presence in domestic and export market. In domestic market, the company received orders from eastern, western and northern part of India, further, the company exported to 40 countries, including Europe, Africa, Middle east and Asia through its marketing arm Thermal system GMBH at Germany. Further, the company received orders from industrial units such as steel, refinery, and power plant among others which mitigate the industry and geography concentration risk.

#### **Key weaknesses**

##### **Moderate profitability margin**

The company's profitability margin stood moderated and remains in the range of 6%- 9% with a tad bit of fluctuations considering increase in employment cost and other operational expenses like fabrication charges and erection charges. Although, margins tend to be increasing due to rising demand of waste heat recovery market globally. Furthermore, the company's profit after tax (PAT) margin also remained thin, although improved to 4.18% in FY24 (PY: 3.75%) considering improved PBILDT levels and stable interest and depreciation overheads. Profitability margins are likely to remain range bound primarily due to higher input cost and increasing competition in the business.

##### **Lead time in raw material availability and volatile prices**

Major raw material used by the company is steel, which is procured from reputed suppliers. Per the arrangement there is no fixed rate contract with suppliers, however, to hedge the increase in prices of key raw material, the company has order backed arrangement. Furthermore, being specialised steel there is a lead time of 2-3 months in procurement from the date of order which exposes the company to price fluctuation risk. Nonetheless, most contracts have an escalation clause, which mitigates the price volatility risk to some extent. Timely availability of raw material and the company's ability to bag contracts with favourable terms like pass through cost, and escalation clause among others will remain a key rating sensitivity.

##### **Elongated operating cycle**

The company's operations are working capital intensive. Order book's normal tenure is ~12 to 15 months. TSHPL procure raw material once the order received while manufacturing and installation takes ~4-5 months of time owing to which inventory holding remains on a higher side. Furthermore, average collection period also remains at ~1-3 month while a part of order value is received in advance to facilitate raw material procurement. Although, net cash flow from operations remains positive backed by support extended by creditors and advances received, given the high inventory holding period, operating cycle stands elongated at ~4-5 months.

##### **Cyclical industry**

Industrial equipment's used in waste recovery solutions are directly linked to capex requirement in globally economy, development and expansion of existing manufacturing units. Capex was flat over FY19 to FY21 and grew 16% in FY22. Capital expenditure trends of Indian corporates are likely continued and expected to grow Indian companies are expected to spend ~US\$ 45-50 billion annually on capex over the next one to two years. Domestic corporates focusing more on localisation, and multi nationals looking to reduce risk in global supply chain may attract higher private investments in medium term, further govt reforms such as good and service tax (GST), lower corporate tax rate, production linked incentives schemes and rising state spending on infrastructure boost the investments. However, growth in capex is tempered by currency pressures from high commodity prices, weak global economic outlook, rising interest rates and inflationary pressures.

##### **Liquidity: Adequate**

The company's liquidity profile is adequate marked by projected gross cash accruals (GCA) of ₹23.94 crore against the repayment obligation of ₹0.83 crore, further the company does not have major long-term borrowings, and no major capex has been envisaged in the projected years. The company's working capital utilisation for past 12 months stood low at 54% due to support from advances received from the customers, providing financial flexibility to the company. Furthermore, the company had a free cash and liquid investments of ₹24.22 crore as on March 31, 2024.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

## Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

TSPL was initially setup as a proprietary concern in 1984 by P V Raju and was reconstituted as private limited company in 1991. The company is engaged in providing turnkey solutions from concept (Designing) to Commissioning of Waste Heat Recovery Systems and custom-designed heat recovery equipment's for varied applications in industries. The company's major products include process gas boiler, lean/ tail gas fired boilers, heat exchangers, waste heat recovery boilers, and fired boilers among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	208.47	337.85	508.73
PBILDT	14.97	24.04	44.80
PAT	5.00	12.66	21.29
Overall gearing (times)	0.43	0.09	0.03
Adjusted overall gearing (times)	0.43	0.22	0.58
Interest coverage (times)	2.48	5.04	5.56

A: Audited UA: Unaudited; Note: these are latest available financial results

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

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	65.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	242.82	CARE A2
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	1.21	CARE A2
Term Loan-Long Term		-	-	August 2025	0.97	CARE BBB+; Stable

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	65.00	CARE BBB+; Stable	1)CARE BBB+; Stable (09-Oct-24)	1)CARE BBB; Stable (04-Aug-23)	-	-
2	Non-fund-based - ST-BG/LC	ST	242.82	CARE A2	1)CARE A2 (09-Oct-24)	1)CARE A3+ (04-Aug-23)	-	-
3	Term Loan-Long Term	LT	0.97	CARE BBB+; Stable	1)CARE BBB+; Stable (09-Oct-24)	1)CARE BBB; Stable (04-Aug-23)	-	-
4	Non-fund-based - ST-Loan Equivalent Risk	ST	1.21	CARE A2	1)CARE A2 (09-Oct-24)	1)CARE A3+ (04-Aug-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Non-fund-based - ST-Loan Equivalent Risk	Simple
4	Term Loan-Long Term	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Karthik Raj K Director <b>CARE Ratings Limited</b> Phone: +91-80- 4662 5555 E-mail: <a href="mailto:karthik.raj@careedge.in">karthik.raj@careedge.in</a>
<b>Relationship Contact</b>  Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 912267543404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a>	Niraj Thorat Assistant Director <b>CARE Ratings Limited</b> Phone: 914040102030 E-mail: <a href="mailto:Niraj.Thorat@careedge.in">Niraj.Thorat@careedge.in</a>
	Mou Ghanty Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Mou.ghanty@careedge.in">Mou.ghanty@careedge.in</a>

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