Tecnimont Private Limited

March 12, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	15.00 (reduced from 45.00)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	625.00 (increased from 405.00)	**CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)**	**Reaffirmed**
Total Facilities	**640.00 (Rs. Six hundred and forty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Tecnimont Private Limited (TPL) factors the immensely experienced and resourceful promoter group, strong operational linkages with the parent and other group companies, satisfactory operational performance and healthy capital structure. The ratings also factors in the improvement in the EPC order-book of TPL.

The rating strengths are however, tempered by elongated working capital cycle, exposure to volatility in foreign exchange rates and order-book dependence on its parent and group entities.

The rating also takes cognizance of the uncovering of a fraudulent transaction (amounting to around US$ 18.6 million (approx. Rs. 130.00 crore)), and the subsequent termination of the former CMD. Furthermore, CARE also takes note of the reconstitution of the board and the ensuing action taken by the new board with the relevant authorities and investigating agencies.

CARE further takes note that the impact of the fraudulent transaction on the liquidity profile of the company is partially mitigated by maintenance of satisfactory cash reserves maintained by the company as on January 15, 2019. According to TPL's management, the existing and future business operations are unlikely to be impacted materially.

The ability of TPL to maintain its order-book position, timely completion of the EPC orders and effective management of its working capital cycle and forex risk continues to remain its key rating sensitivities. Any significant dividend pay-out or financial support extended to the parent, in the future, affecting the capital structure and debt coverage indicators of TPL shall remain critical from a credit perspective.

Detailed description of the key rating drivers:

Key Rating Strengths

Experienced and professionally managed promoter group: Maire Tecnimont SpA, headquartered in Italy is the ultimate parent company of the group which comprises over 50 companies in the engineering and main contracting sector. The group has primarily two business units, i.e. Technology Engineering & Construction which forms 96% of the group's revenue with balance being contributed by Infrastructure & Civil Engineering. The main technological focus segments are Petrochemicals, Fertilizers and Oil & Gas. TPL is 100% step down subsidiary of Maire Tecnimont SpA.

Strong operational linkages within group: The group extends support to its Indian counterpart (TPL) in execution of its projects by providing access to its technologies and know-how as well as deployment of skilled personnel wherever necessary. The orderbook position of Maire Tecnimont SpA as on September 30, 2018 remained at around Euro 7.3 billion. TPL has a master agreement with parent for supply of 2.2 million man-hours annually.

Satisfactory operational performance and improved order-book: TPL reported consolidated revenue de-growth of 6% primarily on account of lower engineering services provided to Tecnimont SpA. (immediate parent) as well as lower revenue from EPC whereas revenue from Electrical & Instrumentation division (E&I) improved in FY18 as compared to previous year. PBILDT reduced from Rs.102.57 crore in FY17 to Rs.40.70 in FY18 on account of lower engineering services to parent. TPL bagged two major EPC orders of Rs. 1,276 crore (TPL's portion) in consortium with group companies to be executed over FY19 to FY21, therefore, the revenue from EPC division is expected to be higher from FY19 onwards.

Healthy capital structure: TPL's capital structure continued to remain comfortable with no debt as on March 31, 2018. On the back drop of very low fund based (FB) and Non Fund Based (NFB) utilization levels, interest coverage ratio remains comfortable at 35x in FY18.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Key Rating Weaknesses

High dependence on parent and group companies: Revenue from the group companies continued to remain high at about 44% in FY18 as compared to 53% in FY17. Due to increase in EPC order-book, revenue from EPC division is expected to be higher from FY19 onwards and dependence will reduce to some extent.

Exposed to fluctuations in foreign exchange: During FY18, the company earned approximately 77% (previous year 73%) of its net revenue of Rs.755 crore (previous year Rs.826 crore) from overseas market exposing TPL to foreign currency risk. TPL hedged its net foreign exchange exposure (forex receivables minus payable) to the extent of 102% as on March 31, 2018 (41% as on March 31, 2017). The company posted forex gain of Rs.8.12 crore in FY18 as against an exchange gain of Rs.6.03 crore for FY17.

Stretched working capital cycle: While the average working capital cycle exhibited marginal improvement to 145 days from 166 days led by improvement in receivable days, which declined to about 213 days as at Mar'18 as against an average of 231 days at Mar'17, the cycle continued to remain stretched.

Uncovering of fraudulent activity in TPL

The management has come across a fraudulent transaction in Nov-18 amounting to US$ 18.6 million (approx. Rs.130 crore) which resulted in the termination of former Chairman and Managing Director (CMD) and reconstitution of the board. It has been understood that TPL has taken steps including appointing a law firm and filing a police complaint to investigate into the matter.

Liquidity position

TPL has the entire fund based working capital limits unutilized. Further as on January 15, 2019, TPL had a cash and bank balance of Rs. 232 crore on standalone basis. With no debt, satisfactory cash and bank balance, the liquidity position remains comfortable.

Analytical approach: CARE has adopted consolidated approach instead of the earlier standalone approach. The change in approach is primarily on account of starting of commercial operations of its subsidiary company Tecnimont E&I Sdn. Bhd. during FY18. Tecnimont E&I Sdn. Bhd. was incorporated on December 13, 2016, however, remained unoperational during FY17.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

About the Company

In 1958, ICB (Industrial Consulting Bureau), Engineering Company, was founded by Kapadia family. In 1996, Tecnimont acquired 50% equity and the company was re-christened as Tecnimont ICB Pvt. Ltd. (and later to Tecnimont Pvt Ltd.). By 2007, Tecnimont SpA acquired balance 50% equity and the company became a fully owned subsidiary. Tecnimont Pvt Ltd. (TPL), erstwhile, Tecnimont ICB Pvt Ltd, is a wholly owned subsidiary of Tecnimont SpA., Italy, with Maire Tecnimont SPA. being the ultimate holding company. TPL has been engaged in the business of executing EPC projects on turnkey basis, apart from engineering and electrical & instrumentation services. TPL, either solely or in association with its parent Tecnimont SpA undertakes design, engineering, procurement, project management, construction and commissioning of industrial plants in India as well as overseas markets. Furthermore, TPL provides offshore support in engineering designs (both basic and detailed), to its parents global operations.

During FY17, TPL incorporated a subsidiary (99.99%) Tecnimont E&I Sdn. Bhd. in Malaysia. TPL also has a joint venture (45% stake) Hazira Cryogenic Engineering & Construction Management Pvt. Ltd. made for a specific project for construction of LNG plant.

Brief Financials - Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	833.71	779.76
PBILDT	102.57	40.70
PAT	81.76	40.28
Overall gearing (times)	0.02	0.04
Interest coverage (times)	293.06	35.09

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	625.00	CARE AA-; Stable / CARE A1+
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	15.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	625.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (05-Feb-19)	1)CARE AA-; Stable / CARE A1+ (05-Mar-18)	1)CARE AA- / CARE A1+ (19-Oct-16)	1)CARE A+ / CARE A1+ (28-Oct-15)
2.	Fund-based - LT-Packing Credit in Foreign Currency	LT	15.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Feb-19)	1)CARE AA-; Stable (05-Mar-18)	1)CARE AA- (19-Oct-16)	1)CARE A+ (28-Oct-15)

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