October 07, 2021

ITD Cementation India Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term (LT) Fund-based Term Loan	100.0	100.0	[ICRA]A reaffirmed; Outlook revised to Stable from Negative
Long-term (LT) Fund-based Working Capital	650.0	650.0	[ICRA]A reaffirmed; Outlook revised to Stable from Negative
Long-term/Short-term Non-fund Based Limits	4150.0	4150.0	[ICRA]A/[ICRA]A1 reaffirmed; Outlook revised to Stable from Negative
Total	**4900.0**	**4900.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook to stable of ITD Cementation India Limited (ITD) factors in the improvement in operating profitability during Q4FY2021 and Q1FY2022 supported by significant YoY ramp-up in operations and the consequent improvement in coverage metrics. ICRA expects the company to sustain its operating profitability going forward. It must be noted that on account of the Covid-19 pandemic, the operations of ITD were adversely impacted in H1 FY2021. Further, the company had undertaken a cost reassessment exercise and subsequently booked losses for some of its projects, primarily the Bangalore Metro project, in Q2 FY2021. Both these factors resulted in deterioration in coverage metrics of ITD in FY2021. Moreover, the second wave of the COVID pandemic impacted the company’s operations somewhat in Q1 FY2022, the same was limited compared to the first wave.

The ratings positively factor in the order inflow of Rs. 2,812 crore in FY2021 and Rs. 1,600 crore in Q1 FY2022, which has led to a robust order book position of Rs. 12,036 crore as of June 30, 2021. As a result, the ratio of the pending order book to the consolidated operating income of FY2021 is healthy at 4.4 times, thereby providing healthy medium-term revenue visibility. The ratings also take into account the adequate liquidity position of the company with unencumbered cash balances of Rs.64.0 crore as of August 31, 2021 and undrawn working capital facilities with moderate working capital utilisation of 72% for the Jul 2020 – Jun 2021 period (in relation to the drawing power) resulting in an average cushion of Rs. 150 crore. The company’s working capital intensity has been supported by extended credit period from its suppliers with whom the company has a long-standing relationship. The ratings continue to draw comfort from ITD’s demonstrated track record in project execution across various infrastructure sub-segments such as marine and Mass Rapid Transport Systems (MRTS) (both these segments contributed to 58.7% of the unexecuted order book as on June 30, 2021) which require significant technical expertise. The company is backed by strong technical capabilities of its parent Italian Thai Development Public Company Limited, which is one of the largest construction companies in Thailand.

The ratings are constrained by the subdued debt coverage metrics with interest coverage remaining moderate despite improvement to 2.4 times in Q1 FY2022 over 1.6 times in FY2021. The ratings are also constrained by the execution risk, given that a significant share of the order book (26% of the order book as on March 31, 2021) is in nascent stages of execution (less than 10% executed). Any delay in work front availability/ design approvals could adversely affect the progress of the projects. However, ICRA notes that the requisite approvals are in place for most of the major orders. The ratings are further constrained by high inventory days (187 days as on March 31, 2021) as there is a build-up of work-in-progress (WIP) for its metro and marine projects which are largely funded through extended credit period from its suppliers with whom the company has a long-standing relationship and balance through mobilisation advances. This has led to TOL/TNW remaining high at 2.0 times as on March 31, 2021 (1.9 times as on March 31, 2020).

Key rating drivers and their description

Credit strengths

Robust order book provides medium-term revenue visibility - The order-inflow for the company has remained healthy with addition to order-book of Rs. 2,812 crore in FY2021 and Rs. 1,600 crore in Q1 FY2022, which has led to a robust order book position of Rs. 12,036 crore as of June 30, 2021. As a result, the ratio of the pending order book to the consolidated operating income of FY2021 is healthy at 4.4 times, thereby providing medium-term revenue visibility.

Adequate liquidity position with unencumbered cash balances and undrawn working capital facilities – The company has an adequate liquidity position with unencumbered cash balances of Rs.64.0 crore as of August 31, 2021 and undrawn working capital facilities with moderate working capital utilisation of 72% (in relation to the drawing power) for the Jul 2020 – Jun 2021 period resulting in an average cushion of Rs. 150 crore. The company's working capital intensity has been supported by extended credit period from its suppliers with whom the company has a long-standing relationship.

Demonstrated track record in project execution as well strong technical capabilities - The company has a demonstrated track record in project execution across various infrastructure sub-segments such as marine and MRTS (both these segments contribute to 58.7% of the unexecuted order book as on June 30, 2021) which require significant technical expertise. The company is backed by strong technical capabilities of its parent Italian Thai Development Public Company Limited, which is one of the largest construction companies in Thailand.

Credit challenges

Moderate coverage metrics – ITD's coverage indicators continue to remain moderate. Despite improvement to 2.4 times during Q1FY2022, the company's reported interest coverage remained subdued. Company's ability to judiciously manage its working capital cycle while improving its profitability remains crucial for overall improvement in debt coverage indicators.

Elevated levels of inventory - The company's inventory days remain high at 187 days as on March 31, 2021 (150 days as on March 31, 2020) as there is a build-up of WIP for metro and marine projects which is largely funded through extended credit period from its suppliers with whom the company has a long-standing relationship and balance through mobilisation advances. This has led to TOL/TNW remaining high at 2.0 times as on March 31, 2021 (1.9 times as on March 31, 2020). Any adverse movement in working capital intensity will be a key monitorable.

Exposure to execution risk – The company is exposed to execution risk given that a significant share of the order book (26% of the order book as on March 31, 2021) is in nascent stages of execution (less than 10% executed). Any delay in work front availability/ design approvals could adversely affect the progress of the projects. However, ICRA notes that the requisite approvals are in place for most of the major orders.

Liquidity position: Adequate

ITD's liquidity is adequate with unencumbered cash balances of Rs.64.0 crore as of March 31, 2021 and undrawn working capital facilities with moderate working capital utilisation of 72% (in relation to the drawing power) for the Jul 2020 – Jun 2021 period thereby providing adequate cushion to the company. The company's principal repayment obligation in FY2022 is Rs. 17.9 crore which can be comfortably met through expected cash flow from operations.

Rating sensitivities

Positive factors – The rating can be upgraded if there is a significant improvement in the operating margins of the company resulting in improved coverage metrics. Specific credit metrics include improvement of interest coverage to 4.0 times on a sustained basis.

Negative factors – Negative pressure on ITD's rating could arise if there are sustained losses in the ongoing projects thereby adversely impacting the coverage metrics. Further, any larger-than-anticipated support to group entities could also exert downward pressure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Methodology Consolidation and Rating approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ITD Cementation India Limited. As on June 30, 2021, the Company had 1 subsidiary, and 6 JVs, that are enlisted in Annexure-2. For entities which are not fully consolidated, the risk assessment of non-fund based limits of JVs guaranteed by ITD has been factored in while arriving at the ratings.

About the company

Incorporated in June 1978, ITD is a public limited company involved in providing design, engineering, procurement and construction (EPC) services for infrastructure projects in India. ITD has done variety of work which includes piling, foundations, ground improvement, geotechnical & specialist engineering, marine structures and ports; transportation projects including highways and bridges; hydroelectric projects including tunnels and dams; industrial works and urban infrastructure projects. ITD is a part of Thailand-based Italian-Thai Development Public Company Limited (ITD Thai) group

Key financial indicators (audited)

ITD Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2,860.7	2,727.7
Adjusted PAT (Rs. crore)*	15.9	-17.1
Reported PAT (Rs. crore)	43.8	16.0
OPBDIT/OI (%)	10.9%	8.3%
Adjusted PAT/OI (%)*	0.6%	-0.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.0
Total Debt/OPBDIT (times)	1.5	1.7
Interest Coverage (times)	2.4	1.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company, ICRA research
*Adjusted PAT does not include share of profits/loss from joint ventures which are not fully consolidated

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019
					Oct 7, 2021	Dec 7, 2020	Feb 25, 2020	Sep 19, 2019	July 4, 2019	-
1	Term Loan	Long term	100.0	56.5	[ICRA]A (Stable)	[ICRA]A (Negative);	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	-
2	Cash Credit/Working Capital Demand Loan	Long term	650.0	-	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	-
3	Letter of credit/Bank guarantee	Long term /Short term	4,150.0	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A &/ [ICRA]A1 &	[ICRA]A (Stable) / [ICRA]A1	-

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit/Working Capital Demand Loan	Simple
Letter of credit/Bank guarantee	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	April 2015	-	April 2025	100.0	[ICRA]A (Stable)
NA	Cash Credit/ Working Capital Demand Loan	-	-	-	650.0	[ICRA]A (Stable)
NA	Letter of credit/Bank guarantee	-	-	-	4150.0	[ICRA]A (Stable)/ [ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
ITD Cementation Projects India Limited	100.00%	Full Consolidation
ITD Cem India JV	80.00%	Full Consolidation
ITD Cem-Maytas Consortium	95.00%	Full Consolidation
ITD - ITD Cem JV	49.00%	Consolidated using equity method
ITD – ITD Cem JV (Consortium of ITD - ITD Cementation)	40.00%	Consolidated using equity method
CEC-ITD Cem-TPL JV	40.00%	Consolidated using equity method
ITD Cem-BBJ Joint Venture	51.00%	Consolidated using equity method

Source: *ITD annual report FY2021*

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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.

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