April 04, 2023

ITD Cementation India Limited: [ICRA]A (Stable)/[ICRA]A1 reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term (LT) Fund-based Term Loan	100.00	292.26	[ICRA]A (Stable); ratings reaffirmed and assigned for enhanced amount
Long-term (LT) Fund-based Working Capital	650.00	750.00	[ICRA]A (Stable); ratings reaffirmed and assigned for enhanced amount
Long-term/Short-term Non-fund Based Limits	4,150.00	5,930.00	[ICRA]A (Stable)/[ICRA]A1; ratings reaffirmed and assigned for enhanced amount
Total	**4,900.00**	**6,972.26**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for ITD Cementation India Limited (ITD) takes into account the healthy order inflow of Rs. 7,770 crore in FY2022 and Rs. 7,996.0 crore in 9M FY2023, leading to a robust unexecuted order book (OB) of Rs. 21,187 crore as on December 31, 2022, translating into healthy OB/Operating Income (OI) ratio of 5.56 times and providing medium-term revenue visibility. The ratings continue to draw comfort from its demonstrated track record in project execution across various infrastructure sub-segments such as marine and MRTS (both these segments contribute to 52.71% of the unexecuted order book as on December 31, 2022), which require significant technical expertise. ITD is backed by strong technical capabilities of its parent Italian Thai Development Public Company Limited (ITD Thai), which is one of the largest construction companies in Thailand.

The ratings, however, are constrained by the modest interest coverage of 2.22 times in 9M FY2023 and high leverage of 2.47 times as of September 2022. There has been increase in overall capex outlay during FY2023-FY2024 on account of overall increase in scale of operations. This, along with the relatively higher repayment obligations in the medium term will keep the overall coverage metrics under pressure. The company is expecting quarterly revenue run rate of Rs. 1,500 crore, which along with improvement in margin to around 10% should provide support to the overall financial profile. Any slippages on project execution or profitability could have a bearing on the credit profile and remains a key monitorable. The ratings are constrained by the execution risk, given that a significant share of the order book (61%) is in the nascent stages of execution (less than 10% executed) as on September 30, 2022. Nevertheless, these are largely new orders received in FY2022 and H1 FY2023. ICRA notes that the requisite approvals are in place for most of the major orders. Any delay in work front availability/ design approvals could adversely affect the progress of the projects. The ratings are further constrained by high inventory days (175 days as on September 30, 2022) as there is a build-up of work-in-progress (WIP) for the metro and marine projects, which are primarily funded by extended credit period from its suppliers with whom the company has a long-standing relationship and the balance through mobilisation advances. This has led to TOL/TNW remaining high at 2.47 times as on September 30, 2022 (2.18 times as on March 31, 2022). It has bagged a large order in the roads segment recently and is planning debt-funded capex in the medium term. ITD has capex plans to the tune of around Rs. 650 crore during FY 2022-2023 & FY2023-2024 which will be funded largely by debt and mobilisation advances, thus resulting in moderation in leverage and coverage metrics. Moreover, the increase in creditors and mobilisation advances on account of increase in scale of operations will keep the overall leverage metrics elevated in the medium term. Going forward, its ability to tie-up long-term fund remains important to maintain a comfortable current ratio and the company's ability to scale up its revenue and improve profitability remain crucial to maintain the debt coverage metrics.

Key rating drivers and their description

Credit strengths

Robust order book provides medium-term revenue visibility – The company's order inflow remained healthy with addition of orders worth Rs. 7,770 crore in FY2022 and Rs. 7,996.0 crore in 9M FY2023, which led to a robust order book position of Rs. 21,187 crore as on December 31, 2022. As a result, the ratio of the pending order book to the consolidated OI of FY2022 remained healthy at 5.56 times, thereby providing medium-term revenue visibility.

Demonstrated track record in project execution as well strong technical capabilities – ITD has a demonstrated track record in project execution across various infrastructure sub-segments such as marine and MRTS (both these segments contribute to 52.71% of the unexecuted order book as of December 2022, which require significant technical expertise. It 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 company has been awarded a large road construction order of Rs. 4,850 crore from the Adani Group in H1 FY2023. ICRA understands from the management that since ITD is expected to sub-contract a large share of the project, the overall investment would be on a relatively lower side as compared to metro projects.

Credit challenges

Moderate coverage metrics; elongated working capital cycle – ITD's debt coverage indicators continue to remain moderate with interest coverage at 2.22 times in 9M FY2023 (2.02 times in H1 FY2023). Input cost pressure, along with losses in the Bangalore metro project dragged its operating margins in the recent past, which resulted in modest coverage metrics. Its inventory days remained high at 175 days as on September 30, 2022, as there is a build-up of WIP for metro and marine projects, which is largely funded by the extended credit period from its suppliers with whom the company has a long-standing relationship and the balance through mobilisation advances. This has led to TOL/TNW remaining high at 2.47 times as on September 30, 2022 (2.18 times as on March 31, 2022). Any adverse movement in working capital intensity will be a key monitorable. There has been an increase in the overall capex outlay during FY2022-FY2023 and -FY2023-FY2024 on account of overall increase in operations. This, along with the relatively higher repayment obligations in the medium term will keep the overall coverage metrics under prxessure. The company is expecting quarterly revenue run rate of Rs. 1,500 crore, which along with improvement in margin to around 10% should provide support to the overall financial profile. Any slippages on project execution or profitability front could have a bearing on its credit profile.

Exposure to execution risk – The company is exposed to execution risk, given that a significant share of the order book (61% as on September 30, 2022) is in the 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 these are largely new orders received in FY2022 and H1 FY2023 and as informed by the Management requisite approvals are in place for most of the major orders. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by unencumbered cash and bank balance of Rs 166.52 crore (Consolidated) as of December 31, 2022, Rs. 135.18 crore (standalone) as on December 31, 2022 and undrawn working capital facilities with moderate utilisation of 59% of the sanctioned limit from November 2021 - December 2022. Given its large order book and adequate BGs, it can mobilise funds from customers (mobilisation advances) in case of financial exigencies.

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 in case of weaker than expected operating performance, worsening of liquidity position or if DSCR is less than 1.6 times.

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. As on September 30, 2022, the company had three subsidiaries, and four JVs, that are enlisted in the below Annexure II. Further, 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. It has done a variety of work, which includes piling, foundations, ground improvement, geotechnical and 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 ITD Thai Group.

Key financial indicators (audited)

ITD Consolidated	FY2021	FY2022	H1 FY2023	9M FY2023*
Operating income	2,727.7	3,809.0	2,132.5	3,459.5
Adjusted PAT *	-17.1	36.4	22.2	46.3
Reported PAT	16	69	50	87
OPBDIT/OI	8.3%	7.9%	7.0%	7.3%
Adjusted PAT/OI (%)*	-0.6%	1.0%	1.0%	1.3%
Total outside liabilities/Tangible net worth (times)	2.0	2.2	2.5	-
Total debt/OPBDIT (times)	1.7	1.7	1.9	-
Interest coverage (times)	1.6	2.1	2.0	2.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, * Provisional*

* 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 (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on December 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020		
					April 4, 2023	Jan 24, 2023	Oct 7, 2021	Dec 7, 2020	Feb 25, 2020	Sep 19, 2019	July 4, 2019
1	Term loan	Long term	292.26	153.01	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative);	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)
2	Fund-based Working Capital	Long term	750.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)
3	Letter of credit/Bank guarantee	Long term/ Short term	5,930.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A &/ [ICRA]A1 &	[ICRA]A (Stable)/ [ICRA]A 1

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund-based Working Capital	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	April 2015	-	November 2027	292.26	[ICRA]A (Stable)
NA	Fund-based Working Capital	-	-	-	750.00	[ICRA]A (Stable)
NA	Letter of credit/Bank guarantee	-	-	-	5,930.00	[ICRA]A (Stable)/ [ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ITD 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	60.00%	Consolidated using equity method
ITD Cem-BBJ Joint Venture	51.00%	Consolidated using equity method

Source: ITD annual report

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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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