ITD Cementation India Limited

March 16, 2018

Summary of rated instruments

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 (Stable); Upgraded from [ICRA]A-(Stable)
Long-Term (LT) Fund Based-Working Capital	800.00	800.0	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Long-Term/Short-Term Non-Fund Based Limits	4000.0	4000.0	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable), [ICRA]A1; Reaffirmed
Total	**4900.0**	**4900.0**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus) and has reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) outstanding on the Rs. 4900.0 crore[1] bank loans of ITD Cementation India Limited (ITD)[2]. The outlook on the long-term rating is 'Stable'.

Rationale

The upgrade in the long-term rating factors in the networth augmentation and improved liquidity post Qualified Institutional Placement (QIP) issuance in February 2018 through which company raised Rs.336 crore. Further, ICRA expects healthy growth in billing and sustained operating margins at current elevated levels. The improvement in billing is expected to be supported by improved pace of execution in major orders – Bangalore Metro, Mumbai Metro and Nagpur Metro given that the requisite approvals and work front are available now. The company has utilised the proceeds from QIP to reduce the working capital borrowings, resulting in an overall improvement in its coverage and leverage indicators. The ratings also take into account the improvement in operating profitability by 420 bps to 13.2% in CY2017 with completion of a loss-making projects along with significant reduction in subcontracting expenses.

The rating continues to favourably take into account the healthy inflow of orders received by the company which has led to a robust order book position of Rs. 7,513 crore as of December 31, 2017 (ITD has further received Letter of Acceptance for orders worth Rs. 2,381.4 crore in February 2018) i.e. 3.6 times the consolidated operating income of CY2017 thereby providing medium term revenue visibility. The ratings also take into account the healthy liquidity position of the company with unencumbered cash balances of Rs.112 crore as of December 31, 2017 and undrawn working capital facilities. The ratings continue to draw comfort from ITD's demonstrated track record in execution of projects across various infrastructure sub-segments as well as strong parentage, by virtue of being a part of Italian Thai Development Public Company Limited, Thailand's largest construction company by revenues, which enables the company to meet the qualification criteria required to undertake complex projects.

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[1] *100 lakh = 1 crore = 10 million*

*2 For complete rating scale and definitions, please refer to ICRA's website (*www.icra.in*) or other ICRA rating publications.*

The ratings, however, are constrained by the decline in operating revenue in CY2017 owing to lower than anticipated billing for its largest order- Bangalore metro project on account of delay in receipt of Right of Way (RoW). The ratings also consider the high execution risk given the significant order book (59% of the order book as on December 2017) is in nascent stages of execution (less than 10% executed). However, ICRA notes that the requisite approvals are in place for all the major orders. ICRA has also taken note of the sizable bad debt write-off of Rs.112.3 crore in CY2017 and increase in loans & advances to Rs.370 crore in CY2017 to support the losses incurred by JV's. Further, the inventory days has increased from 91 days in CY2016 to 201 as on December 31, 2017 on account of Work-In-Progress (WIP) for metro projects. This was largely supported by extended credit period from its suppliers thereby resulting in increase in Total Outside Liability/ Total Networth (TOL/TNW) from 2.4 times to 2.9 times in December 31, 2017.

Going forward, the company's ability to sustain the operating margins while improving its working capital cycle and faster ramp up in execution across its large orders will remain critical to achieve growth in its revenues.

Outlook: Stable

ICRA believes ITD's billing will remain healthy on account of improved execution of Bangalore metro projects and the profitability to sustain at current level. The outlook may be revised to 'Positive' if the company witnesses higher than expected improvement in its revenues and profitability levels along with better working capital management that would strengthen the financial risk profile. The outlook may be revised to 'Negative' if billing is lower than expected, or any bad debt write-off results in decline in profitability.

Key rating drivers

Credit strengths

Improvement in capital structure and debt coverage metrics – The company's liquidity has improved along with networth augmentation post Qualified Institutional Placement (QIP) issuance in February 2018 through which company raised Rs.336 crore. The company has utilised the proceeds from QIP to reduce the working capital borrowings, resulting in an overall improvement in its coverage and leverage indicators.

Healthy liquidity position with significant unencumbered cash balances and undrawn working capital facilities – The company has a healthy liquidity position with unencumbered cash balances of Rs.112 crore as of December 31, 2017 and undrawn working capital facilities.

Robust order book position providing medium term revenue visibility - The order-inflow for the company has remained healthy over the past two fiscals with addition to order-book of Rs. 4,029 crore in CY2017 leading to a robust order book position of Rs. 7,513 crore as of December 31, 2017 i.e. 3.6 times the consolidated operating income of CY2017 thereby providing medium term revenue visibility. The company has further received Letter of Acceptance for orders worth Rs. 2,381.4 crore in February 2018.

Strong execution capabilities – The company has a demonstrated track record in execution of projects across various infrastructure sub-segments with strong execution capabilities in relatively complex marine projects.

Strong parentage by virtue of being a part of Italian Thai Development Public Company Ltd. (ITD Thai) group – The company has a strong parentage, by virtue of being a part of Italian Thai Development Public Company Limited, Thailand's largest construction company by revenues, which enables the company to meet the qualification criteria required to undertake complex projects.

Credit weaknesses

De-growth in operating income; albeit supported by improvement in operating profitability – The company's operating revenue has declined in CY2017 owing to lower than anticipated billing for its largest order- Bangalore metro project on account of delay in receipt of Right of Way (RoW). The operating income stood at Rs. 2060.5 crore in CY2017 as against Rs. 2937.7 crore in CY2016, translating into a YoY decline of 30%. However, there was an improvement in operating profitability by 420 bps to 13.2% in CY2017 with completion of a loss-making project along with significant reduction in subcontracting expenses.

High execution risk – The company is exposed to high execution risk given the significant order book (59% of the order book as on December 2017) is in nascent stages of execution (less than 10% executed). However, ICRA notes that the requisite approvals are in place for all the major orders.

Elevated levels of inventory and increase in support to loss making JV's - The inventory days has increased from 91 days in CY2016 to 201 as on December 31, 2017 on account of Work-In-Progress (WIP) for metro projects. This was largely supported by extended credit period from its suppliers thereby resulting in increase in Total Outside Liability/ Total Networth (TOL/TNW) from 2.4 times to 2.9 times in December 31, 2017. Further, there has been increase in loans & advances extended by ITD to Rs.370 crore as on December 31, 2017 from Rs.139 crore as on December 31, 2016 to support the losses incurred by JV's. Any further huge support would remain a rating sensitivity.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Construction Entities Methodology

About the company:

Incorporated in June 1978, ITD is a public limited company engaged 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)

	CY 2016	12MFY 2018*
Operating Income (Rs. crore)	2937.7	2060.5
PAT (Rs. crore)	51.2	72.9
OPBDIT/ OI (%)	9.0%	13.2%
RoCE (%)	18.9%	21.8%
Total Debt/ TNW (times)	0.65	0.79
Total Debt/ OPBDIT (times)	1.3	1.8
Interest coverage (times)	2.96	3.10
NWC/ OI (%)	7%	6%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profir after Tax; RoCE: Return on Capital Employed; NWC: Net Working Capital; TNW: Tangible Networth

Note: Financials are as per Ind AS
*Reporting period has been changed from Calendar year to Financial year. The current period financials will be for 15 months i.e. January 2017 – March 2018. The financials are provisional in nature.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March 2018	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2015 July 2014	Date & Rating in FY2014 May 2013
1	Term Loan	Long term	100.0	66.2	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit/Working Capital Demand Loan	Long term	800.0	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Letter of credit/Bank guarantee	Long term /Short term	4000.0	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISI No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2015	9.5%-12.5%	May 2021	100.0	[ICRA]A (Stable)
NA	Cash Credit/ Working Capital Demand Loan	-	-	-	800.0	[ICRA]A (Stable)
NA	Letter of credit/Bank guarantee	-	-	-	4000.0	[ICRA]A (Stable)/ [ICRA]A1

Source: ITD

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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.

For more information, visit www.icra.in

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