July 04, 2019

ITD Cementation India Limited (ITD): [ICRA]A(Stable)/[ICRA]A1 rating reaffirmed

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

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings favourably takes into account the healthy inflow of orders worth Rs. 5,195 crore received by the company in FY2019[1], which led to a robust order book position of Rs. 9,538 crore (adjusting for non-moving orders) as of March 31, 2019. As a result, the adjusted OB is healthy at 3.8 times the consolidated operating income of FY2019* 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.104 crore as of March 31, 2019 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, which enables the company to meet the qualification criteria required to undertake complex projects. The ratings also take into account company's sound capital structure indicated by low gearing of 0.5 times as on March 31, 2019 and healthy coverage indicators reflected in interest coverage ratio of 2.7 times as on March 31, 2019.

The ratings, however, are constrained by the decline in operating margin from 13.7% in CY2017 to 10.5% in FY2019 owing to anticipated losses of around Rs.40 crore recognised for Bangalore metro project in Q5 of FY2019 on account of time over run due to delay in obtaining Right of Way (RoW) and reduction in quantities on account of change in design. The ratings are also constrained due to high execution risk given the significant order book (39% of the order book as on March 31, 2019) 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. The ratings are further constrained due to high inventory days of 148 days as on March 31, 2019 on account of Work-In-Progress (WIP) for metro projects. This is largely supported by extended credit period from its suppliers as the company has a long-standing relationship with majority of its suppliers and also through mobilization advances that it receives for almost all its projects.

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 from a credit perspective.

[1] FY2019 refers to 15-month period between January 01, 2018 - March 31, 2019

*Operating income of FY2019 is adjusted for 12-month period for calculating OB/OI ratio.

Outlook: Stable

ICRA believes ITD's billing will remain healthy on account of robust order book position and improved pace of execution for major orders. 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 there is decline in profitability and/or elongation in working capital cycle leading to a stretch in liquidity profile.

Key rating drivers

Credit strengths

Robust order book position providing medium term revenue visibility - The order-inflow for the company has remained healthy over the past three fiscals with addition to order-book worth Rs. 5,195 crore in FY2019, which led to a robust order book position of Rs. 9,538 crore (adjusting for non-moving orders) as of March 31, 2019. As a result, the adjusted OB is healthy at 3.8 times the consolidated operating income of FY2019 (adjusted for 12-month period for calculating OB/OI ratio) thereby providing medium term revenue visibility.

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.104 crore as of March 31, 2019 and undrawn working capital facilities.

Strong execution capabilities as well as Strong parentage – The company has a 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 (ITD Thai), which enables the company to meet the qualification criteria required to undertake complex projects.

Sound capital structure and coverage indicators – The company's capital structure is sound as indicated by low gearing of 0.5 times as on March 31, 2019 and healthy coverage indicators reflected in interest coverage ratio of 2.7 times as on March 31, 2019.

Credit weaknesses

Decline in operating profitability in FY2019 – The company's operating margin has declined from 13.7% in CY2017 to 10.5% in FY2019 owing to anticipated losses of around Rs.40 crore recognised for Bangalore metro project in Q5 of FY2019 on account of time over run due to delay in obtaining Right of Way (RoW) and reduction in quantities on account of change in design. Bangalore metro project is an item rate contract based on bill of quantities (BOQ). As on March 31, 2019, the company has billed Rs.1,024 crore (49% of the total order value) for Bangalore metro project and unexecuted order book for Bangalore metro stands at around Rs.1,066 crore. The company expects to complete the Bangalore metro project by June 2020.

High execution risk – The company is exposed to high execution risk given the significant order book (39% of the order book as on March 31, 2019) 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 - The company's inventory days are high at 148 days as on March 31, 2019 on account of Work-In-Progress (WIP) for metro projects. This is largely supported by extended credit period from its suppliers as the company has a long-standing relationship with majority of its suppliers and also through mobilization advances that it receives for almost all its projects.

Liquidity Position:

The company has a healthy liquidity position with unencumbered cash balances of Rs.104 crore as of March 31, 2019 and undrawn working capital facilities. The utilization levels for the fund-based limits have been moderate w.r.t to the drawing power with average utilization being 66% for the period Jan 2018 – May 2019. The company's principal debt repayment obligation in FY2020 is Rs.10.82 crore. The company is estimated to comfortably service its obligation through cash accruals.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Methodology
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 March 31, 2019, the Company had 3 subsidiaries, and 3 JVs, that are enlisted in Annexure-2.

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 (Consolidated, Audited)

	CY 2017	15MFY 2019*
Operating Income (Rs. crore)	2060.5	3165.1
PAT# (Rs. crore)	86.8	83.3
OPBDIT/ OI (%)	13.7%	10.5%
RoCE (%)	23.3%	16.0%
Total Debt/ TNW (times)	0.8	0.5
Total Debt/ OPBDIT (times)	1.7	2.0
Interest coverage (times)	3.2	2.7

Source: Company, ICRA research

#PAT does not include share of profits/loss from joint ventures

*Reporting period has been changed from Calendar year to Financial year. Accordingly, the financial year 2019 of the Company is for a period of 15 months commencing from 1st January 2018 and ending on 31st March 2019.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating July 2019	Date & Rating in FY2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017 Feb 2017
1	Term Loan	Long term	100.0	27.9	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Cash Credit/Working Capital Demand Loan	Long term	800.0	-	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Letter of credit/Bank guarantee	Long term /Short term	4000.0	-	[ICRA]A (Stable)/ [ICRA]A1	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1

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

ISIN 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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
ITD Cementation Projects India Limited	100.00%	Full Consolidation
ITD Cemindia JV	80.00%	Full Consolidation
ITD Cem-Maytas Consortium	95.00%	Full Consolidation
ITD - ITD Cem JV	49.00%	Full Consolidation
ITD – ITD Cem JV (Consortium of ITD - ITD Cementation)	40.00%	Full Consolidation
CEC-ITD Cem-TPL JV	60.00%	Full Consolidation

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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.

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For more information, visit www.icra.in

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