September 19, 2019

ITD Cementation India Limited (ITD): [ICRA]A&/[ICRA]A1&; Placed under 'rating watch with developing implications'

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 &; placed under rating watch with developing implication
Long-Term (LT) Fund Based-Working Capital	800.00	800.0	[ICRA]A &; placed under rating watch with developing implication
Long-Term/Short-Term Non-Fund Based Limits	4000.0	4000.0	[ICRA]A &/ [ICRA]A1 &; placed under rating watch with developing implication
Total	**4900.0**	**4900.0**	

**Instrument details are provided in Annexure-1*

Rationale

On September 06, 2019, ITD Cementation India Limited (ITD) had informed Bombay Stock Exchange regarding the incident that has occurred in the ongoing underground construction of East-West Metro Corridor of Kolkata Metro Rail Corporation Limited (KMRCL) which is undertaken by ITD - ITD Cem Joint Venture (ITD JV). The tunnel boring machine (TBM) which was carrying out underground tunneling hit a pocket of a sand aquifer (shallow ground water reserve) resulting in ingress of water mixed with soil mix, which entered the tunnel due to which TBM operation had been stopped temporarily. Further the water pressure and the flow pattern resulted in development of cracks in some buildings in this vicinity. The total contract value for this project is Rs. 1770.35 crore (of which 65% is completed) and ITD along with its JVs have furnished Rs. 128 crore of bank guarantees for this project. KMRCL is currently reviewing the situation. The company is yet to ascertain the impact of this mishap on the project cost, execution timeline, assessment of damage to TBM/machinery, and consequently the overall impact on the profitability. At this stage, ICRA is unable to assess the impact of this mishap on the credit profile of ITD. Thus, the rating has been placed under watch with developing implications. ICRA will closely monitor the developments and would keep the investors updated on the implication of the same on the credit profile of the company.

The ratings continue to take into account the healthy inflow of orders worth Rs. 5,195 crore received by the company in FY2019[1] and Rs. 1066 crore in Q1FY2020, which led to a robust order book position of Rs. 9,701 crore (adjusting for non-moving orders) as of June 30, 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 adequate liquidity position of the company with unencumbered cash balances of Rs.44.5 crore as of July 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

[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.

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 TOL/TNW of 1.5 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 operating margins improved subsequently in Q1FY2020 to 11.8%; however, remained muted as there was no profit booking on Bangalore Metro project. The ratings are also constrained due to 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 as there is a buildup of Work-In-Progress (WIP) for metro projects due to revenue being recognized based on contract work invoiced and approved by the customer. 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.

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 and Rs.1066 crore in Q1FY2020, which led to a robust order book position of Rs. 9,701 crore (adjusting for non-moving orders) as of June 30, 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.

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.44.5 crore as of July 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 TOL/TNW of 1.5 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 right of way (RoW) and reduction in quantities on account of change in design. The operating margins improved subsequently in Q1FY2020 to 11.8%; however, remained muted as there was no profit booking on Bangalore Metro project. 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.

Exposed to execution risk – The company is exposed to 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 as there is a buildup of Work-In-Progress (WIP) for metro projects due to revenue being recognized based on contract work invoiced and approved by the customer. 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: Adequate

The company has an adequate liquidity position with unencumbered cash balances of Rs.44.5 crore as of July 31, 2019. The utilization levels for the fund-based limits have been moderate w.r.t to the drawing power with average utilization being 68% for the period Jan 2018 – July 2019. The company's principal debt repayment obligation in FY2020 is Rs.10.82 crore which can be comfortably met through cash accruals.

Rating sensitivities

Positive triggers: Improvement in operating margin beyond 13% and TOL/TNW reducing below 1.2 times on a sustained basis.

Negative triggers: Negative pressure on the above ratings of ITD could arise if there is crystallization of any liabilities on account of mishap in Kolkata metro or if the operating profitability declines below 8% or TOL/TNW increases beyond 2.4 times.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Methodology Financial 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, 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		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					19-September 2019	04-July 2019		16-March 2018	02-Feb 2017
1	Term Loan	Long term	100.0	27.9	[ICRA]A &	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Cash Credit/Working Capital Demand Loan	Long term	800.0	-	[ICRA]A &	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Letter of credit/Bank guarantee	Long term /Short term	4000.0	-	[ICRA]A &/ [ICRA]A1 &	[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 &
NA	Cash Credit/ Working Capital Demand Loan	-	-	-	800.0	[ICRA]A &
NA	Letter of credit/Bank guarantee	-	-	-	4000.0	[ICRA]A &/ [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 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

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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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