February 25, 2020

ITD Cementation India Limited (ITD): Removed from 'rating watch with developing implications' and 'Stable' outlook assigned

Summary of rated 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 (Stable); removed from 'rating watch with developing implication' and 'Stable' outlook assigned
Long-Term (LT) Fund Based-Working Capital	800.00	800.0	[ICRA]A (Stable); removed from 'rating watch with developing implication' and 'Stable' outlook assigned
Long-Term/Short-Term Non-Fund Based Limits	4000.0	4000.0	[ICRA]A (Stable)/ [ICRA]A1; removed from 'rating watch with developing implication' and 'Stable' outlook assigned
Total	**4900.0**	**4900.0**	

**Instrument details are provided in Annexure-1*

Rationale

Following the incident[1] that 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 rating of ITD Cementation India Limited (ITD) has been placed under watch with developing implications. On February 12, 2020, ITD had informed Bombay Stock Exchange, that honourable Calcutta High Court vide, its order dated February 11, 2020, has directed KMRCL to start the tunneling work. Basis this order, ITD JV has restarted the underground works of Kolkata Metro. As on December 31, 2019 out of the total contract value for this project of Rs. 1770.35 crore, Rs.484.52 crore is pending. The balance work is estimated to be completed by December 2021 as against original completion schedule of May 2020; the company is in the process of applying for extension of the timeline for the same. ICRA is given to understand that the overall cost overrun (including damages to ITD's machinery) is estimated to be around Rs.90- Rs.100 crore. The additional cost will be partly met through contingency reserve available as part of original project cost and partly by way of insurance claims. Further, the ITD JV has adequate liquidity cushion with unencumbered cash of Rs. 269 crore as on December 31, 2019 which provides comfort. Although the execution timelines are impacted, there will not be any material adverse impact on ITD's financials and thus ICRA has removed the 'rating watch with developing implication' and assigned a 'Stable' outlook.

[1] 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 ratings continue to take into account the healthy inflow of orders worth Rs. 5,195 crore received by the company in FY2019[2] and Rs.5,608 crore in 9MFY2020, which led to a robust order book position of Rs. 12,660 crore as of December 31, 2019. As a result, the ratio of pending order book to the consolidated operating income of FY2019[3] is healthy at 5.0 times 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.90 crore as of December 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 TOL/TNW of 1.8 times and adequate coverage indicators reflected in interest coverage ratio of 2.3 times as on December 31, 2019.

The ratings, however, are constrained by the decline in operating margin from 13.7% in CY2017 to 10.5% in FY2019 due to change in revenue mix towards low margin generating segment namely urban infrastructure segment which now contributes a greater portion of total revenue as compared to CY2017. The contraction of margin is also attributable to losses recognised for Bangalore metro project in the last quarter of FY2019 on account of reduction in quantities because of change in design. The operating margins has remained moderate at 10.1% for 9MFY2020 since urban infrastructure segment continues to be the largest contributor to operating income. 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. 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 and their description

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.5,608 crore in 9MFY2020, which led to a robust order book position of Rs. 12,660 crore as of December 31, 2019. As a result, the ratio of pending order book to the consolidated operating income of FY2019[3] is healthy at 5.0 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.90 crore as of December 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

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

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

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 adequate coverage indicators – The company's capital structure is sound as indicated by TOL/TNW of 1.8 times and adequate coverage indicators reflected in interest coverage ratio of 2.3 times as on December 31, 2019.

Credit challenges

Decline in operating profitability in FY2019 – The company's operating margin has declined from 13.7% in CY2017 to 10.5% in FY2019 due to change in revenue mix towards low margin generating segment namely urban infrastructure segment which now contributes a greater portion of total revenue as compared to CY2017. The contraction of margin is also attributable to losses recognised for Bangalore metro project in the last quarter of FY2019 on account of reduction in quantities because of change in design. The operating margins has remained moderate at 10.1% for 9MFY2020 since urban infrastructure segment continues to be the largest contributor to operating income.

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. 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.90 crore as of December 31, 2019. The utilization levels for the fund-based limits have been moderate w.r.t to the drawing power with average utilization being 70% for the period Jan 2019 – Dec 2019. The company's principal debt repayment obligation in FY2020 is Rs.10.82 crore and Rs.11.1 crore in FY2021, which can be comfortably met through expected cash flow from operations.

Rating sensitivities

Positive triggers: ICRA could upgrade ITD's rating if there is significant increase in scale of operations with 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 significant decline in the scale of operations or Total Debt/EBITDA increases beyond 2.5 times and interest coverage remains below 3.0 times on a sustained basis. 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 December 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)

	15MFY 2019*	9MFY 2020
Operating Income (Rs. crore)	3165.1	2124.9
PAT# (Rs. crore)	83.3	31.3
OPBDIT/ OI (%)	10.5%	10.1%
RoCE (%)	16.0%	12.2%
Total Debt/ TNW (times)	0.5	0.5
Total Debt/ OPBDIT (times)	2.0	1.9
Interest coverage (times)	2.7	2.3

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
					25-Feb 2020	19-Sep 2019	04-July 2019		16-March 2018	02-Feb 2017
1	Term Loan	Long term	100.0	19.9	[ICRA]A (Stable)	[ICRA]A &	[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 &	[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 &/ [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%-10.5%	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 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

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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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