ICRA

December 07, 2020

ITD Cementation India Limited (ITD): Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term (LT) Fund-based Term Loan	100.0	100.0	[ICRA]A (Negative); Ratings reaffirmed; Outlook revised to Negative from Stable
Long-term (LT) Fund-based Working Capital	800.0	650.0	[ICRA]A (Negative); Ratings reaffirmed; Outlook revised to Negative from Stable
Long-term/Short-term Non-fund Based Limits	4000.0	4150.0	[ICRA]A (Negative)/ [ICRA]A1; Ratings reaffirmed; Outlook revised to Negative from Stable
Total	**4900.0**	**4900.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook to negative factors in the impact of Covid-19 pandemic on the operations of ITD Cementation India Limited (ITD) and the consequent operating losses reported in Q2 FY2021. As a result, ITD's coverage metrics are expected to witness moderation in FY2021. ITD's productivity in Q1 FY2021 was severely impacted on account of COVID related lockdown. Given the location of some of the major revenue contributing orders of ITD in the cities badly affected by Covid, localised lockdowns being imposed by the authorities and stringent social distancing norms followed at the project sites led to subdued project execution efficiency in Q2 FY2021. The company re-assessed the cost escalation on account of Covid for all of its projects along with the corresponding recoverability from clients and subsequently booked losses for some of its projects in Q2 FY2021; overall in H1 FY2021, the company reported OI of Rs. 952.1 crore (YoY de-growth of 33%) and operating profit of Rs. 28.2 crore (YoY de-growth of 81%). Majority of the losses in Q2 FY2021 were booked for the Bangalore Metro project wherein the company has already booked losses of ~Rs. 40 crore in Q4FY2019. Further, one of the packages of this project is also facing work front availability issues, thus, exacerbating the execution risks for this project. However, ICRA is given to understand that ITD has reassessed the costs for all its projects till September 30, 2020. Further, the Mumbai and Kolkata metro projects, wherein the complex tunnelling work is nearing completion, is likely to aid the profitability in H2 FY2021. Though execution efficiency has gradually ramped up, any fresh restrictions/lockdown going forward will further constrain the efficiency thereby impacting billing and profitability in the current fiscal.

The ratings are constrained by the deterioration in company's debt coverage metrics with interest coverage falling below one for 6M FY2021 on account of the disruption caused by the Covid pandemic; however, liquidity remains adequate. The ratings are also constrained by the execution risk, given that a significant share of the order book (45% of the order book as on March 31, 2020) is in 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 the requisite approvals are in place for most of the major orders. The ratings are further constrained by high inventory days (150 days as on March 31, 2020) as there is a build-up of work-in-progress (WIP) for metro projects which is largely funded through extended credit period from its suppliers with whom the company has a long-standing relationship and through the mobilisation advances. This has led to increase in TOL/TNW to 1.9 times as on March 31, 2020 as against TOL/TNW of 1.5 times as on March 31, 2019.

The ratings, however, positively factors in the healthy order inflow worth Rs. 5,642 crore, for the company in FY2020 and Rs. 1,096 crore in 6M FY2021, which led to a robust order book position of Rs. 11,916 crore as of September 30, 2020. As a result, the ratio of the pending order book to the consolidated operating income of FY2020 is healthy at 4.2 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.153.2 crore as of September 30, 2020 and undrawn working capital facilities with moderate working capital utilisation of 64% for the Aug 2019 – Sep 2020 period. The ratings continue to draw comfort from ITD's demonstrated track record in project execution across various infrastructure sub-segments such as marine, MRTS, tunnelling etc. as well as the strong technical capabilities by being a part of Italian Thai Development Public Company Limited, which is one of the largest construction companies in Thailand.

Key rating drivers and their description

Credit strengths

Robust order book provides medium-term revenue visibility - The order-inflow for the company has remained healthy with addition to order-book worth Rs. 5,642 crore in FY2020 and Rs. 1,096 crore in 6M FY2021, which led to a robust order book position of Rs. 11,916 crore as of September 30, 2020. As a result, the ratio of the pending order book to the consolidated operating income of FY2020 is healthy at 4.2 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.153.2 crore as of September 30, 2020 and cushion in working capital facilities with moderate working capital utilisation of 64% (~Rs. 139 crore of average cushion) for the Aug 2019 – Sep 2020 period.

Demonstrated track record in project execution as well strong technical capabilities - The company has a demonstrated track record in project execution across various infrastructure sub-segments such as marine, MRTS, tunnelling etc. as well as the strong technical capabilities by being a part of Italian Thai Development Public Company Limited, which is one of the largest construction companies in Thailand.

Credit challenges

Impact of COVID and deterioration in the coverage metrics - The rating factors in the impact of Covid-19 pandemic on the operations of ITD and the consequent operating losses reported in Q2 FY2021. As a result, ITD's coverage metrics are expected to witness moderation in FY2021. ITD's productivity in Q1 FY2021 was severely impacted on account of COVID related lockdown. Given the location of some of the major revenue contributing orders of ITD in the cities badly affected by Covid, localised lockdowns being imposed by the authorities and stringent social distancing norms followed at the project sites led to subdued project execution efficiency in Q2 FY2021. The company re-assessed the cost escalation on account of Covid for all of its projects along with the corresponding recoverability from clients and subsequently booked losses for some of its projects in Q2 FY2021. However, ICRA is given to understand that ITD has reassessed the costs for all its projects till September 30, 2020. Further, the Mumbai and Kolkata metro projects, wherein the complex tunnelling work is nearing completion, is likely to aid the profitability in H2 FY2021.

Exposure to execution risk – The company is exposed to execution risk given that a significant share of the order book (45% of the order book as on March 31, 2020) is in 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 the requisite approvals are in place for most of the major orders.

Elevated levels of inventory - The company's inventory days are high at 150 days as on March 31, 2020 as there is a build-up of WIP for metro projects which is largely funded through extended credit period from its suppliers with whom the company has a long-standing relationship and through the mobilisation advances. This has led to increase in TOL/TNW to 1.9 times as on March 31, 2020 as against TOL/TNW of 1.5 times as on March 31, 2019.

Liquidity position: Adequate

ITD's liquidity is adequate with unencumbered cash balances of Rs.153.2 crore as of September 30, 2020 and undrawn working capital facilities with moderate working capital utilisation (with respect to drawing power) of 64% for the Aug 2019 – Sep 2020 period thereby providing adequate cushion to the company. The company's principal repayment obligation in FY2021 is Rs. 14.94 crore which can be comfortably met through expected cash flow from operations.

Rating sensitivities

Positive triggers – Given the negative outlook, the crystallisation of scenarios for a rating upgrade is unlikely, however the outlook can be revised to stable, if there is a significant improvement in the operating margins of the company resulting in improved coverage metrics.

Negative triggers – Negative pressure on ITD's rating could arise if there are sustained losses in the ongoing projects thereby adversely impacting the coverage metrics and/or significant decline in the scale of operations. 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 September 30, 2020, the Company had 1 subsidiary, and 5 JVs, that are enlisted in Annexure-2. 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. 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. ITD Thai has a presence in various infrastructure sub segments such as building construction, industrial plants, pipelines, railways, expressways, airports, seaports, power plants, hydro-electric dams, mines etc. As on June 30, 2020, it had an outstanding order book of THB (Thai Baht) 303.1 billion.

Key Financial Indicators (Consolidated)

	15M FY2019	FY2020
Operating Income (Rs. crore)	3170.5	2860.7
PAT (Rs. crore)	83.3	15.9
OPBDIT/OI (%)	10.7%	10.9%
PAT/OI (%)	2.6%	0.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.9
Total Debt/OPBDIT (times)	2.0	1.5
Interest Coverage (times)	2.7	2.4

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 past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020			FY2019	FY2018
					Dec-7-2020	Feb-25-2020	Sep-19-2019	July-4-2019	-	March-16-2018
1	Term Loan	Long term	100.0	22.7	[ICRA]A (Negative);	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	-	[ICRA]A (Stable)
2	Cash Credit/Working Capital Demand Loan	Long term	650.0	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	-	[ICRA]A (Stable)
3	Letter of credit/Bank guarantee	Long term /Short term	4150.0	-	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A &/ [ICRA]A1 &	[ICRA]A (Stable)/ [ICRA]A1	-	[ICRA]A (Stable)/ [ICRA]A1

Amount in Rs. Crore

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2015	-	May 2021	100.0	[ICRA]A (Negative)
NA	Cash Credit/ Working Capital Demand Loan	-	-	-	650.0	[ICRA]A (Negative)
NA	Letter of credit/Bank guarantee	-	-	-	4150.0	[ICRA]A (Negative)/ [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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