

January 31, 2024

Humboldt Wedag India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]A+ (Stable); reaffirmed
Total	-	-	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the Rating continues to draw comfort from the strong market position of Humboldt Wedag India Private Limited (“HWIPL” or “the Company”) as a cement plant and equipment supplier and the operational linkages with its Parent Entity, KHD Humboldt Wedag International AG (“KHD” or “the Parent Entity”), which has an extensive experience in the Cement Industry across various geographies globally. Further, the Rating factors-in healthy order book position of around Rs. ~1,400 crore as on December 31, 2023 (~1.5 times of FY2023 revenues), indicating healthy revenue visibility going forward.

The Rating also factors-in HWIPL’s long track record of operations in the domestic Cement Industry, its established relationships with reputed clientele which include leading cement manufacturers in India. ICRA also continues to factor-in HWIPL’s strong liquidity position as evidenced by sizeable free cash and bank balances of more than Rs. ~300 crore as on December 31, 2023, and conservative capital structure as reflected by its zero-debt position. Notwithstanding the debtors and inventories levels as on March 31, 2023 and as on December 31, 2023, the Company’s working capital requirement is supported by mobilisation advances from the customers.

The Rating remains constrained by HWIPL’s weak operating profit margins largely owing to high competitive intensity and high bargaining power of its key large clients, and to some extent due to additional provisions for anticipated losses in a project and provisions for expected credit losses (ECL) in FY2023. The Rating also factors in the vulnerability of its operating profitability to adverse movements in raw material prices, given the fixed-price nature of the contracts. Further, the dependence on third party vendors/sub-suppliers also exposes HWIPL to the risks of timely completion of orders while maintaining the desired quality parameters. Further, the cyclicity associated with Cement Industry is likely to impact the Company’s financial and business profile, as it derives its entire revenue from the Cement Sector. However, the current demand scenario of the Cement Industry has been robust with the cement players in expansion mode as reflected in HWIPL’s healthy order book position.

Moreover, notwithstanding the modest improvements in operating profitability of the KHD Group at a consolidated level over the past few years, ICRA notes the weak financial performance of the Parent Entity, which had been incurring losses over the last few years. The KHD Group reported modest profits during CY2022 and H1CY2023. While there has been no up-streaming of funds to the Parent Entity in the past and HWIPL has indicated that no dividend payment is envisaged to be paid to Parent Entity, the possibility of the same cannot be ruled out.

The Stable outlook reflects ICRA’s expectation that HWIPL will continue to benefit from its established track record of operations, and healthy order book position in the medium term.

Key rating drivers and their description

Credit strengths

HWIPL enjoys strong operational support from KHD; established market position as cement plant equipment’s supplier—The Company is a “full-range” cement plant equipment’s supplier and holds a sizeable market share and strong market position in the cement plant equipment industry. Being a subsidiary of KHD, a global cement plant equipment supplier, HWIPL enjoys

operational support, in terms of sharing of technical know-how by its Parent Entity, along with procurement of certain proprietary equipment's. Also, the Company along with its Parent-KHD jointly caters to some of the off-shore orders.

Strong order book provides healthy revenue visibility, however timely execution remains crucial – The operating income (OI) of the Company saw a moderate increase of ~5.3% in FY2023 over a high base, to Rs. 972 crore (FY2022: Rs. 923 crore and FY2021: Rs 403 crore) driven by revival of capex cycle in the Cement Industry owing to robust demand in key geographies. The aforesaid revival led to healthy order inflows over the past 3 years, resulting in build-up of the order book position of around Rs. ~1,400 crore as on December 31, 2023 (Closing order book/FY2023 OI ratio at ~1.5 times) thereby providing healthy revenue visibility going forward.

The completion of projects within agreed timelines and with desired quality parameters is critical to minimize liabilities arising from project delays & performance issues and thus remains critical as the Company remains dependent on ability of third party vendors/sub-suppliers to meet supply timelines. The Company has Workshop and Warehouse in Faridabad for assembly, sub-assembly, fabrication of cement plant equipment's and focus continues to be on gradually increasing in-house fabrication vis-a-vis outsourcing.

Healthy financial risk profile, marked by strong capital structure and healthy coverage indicators – HWIPL's healthy financial profile is marked with absence of external debt, and moderate capex plans. In order to expand its in-house fabrication capabilities, the Company has recently incurred capital expenditure for a New Workshop in Faridabad, near the existing one, funded via internal accruals and available cash and bank balances. Its capacity is expected to be further enhanced over the medium term with gradual addition of new machinery. These factors coupled with availability of sizeable free cash and bank balances of more than Rs. ~300 crore as on December 31, 2023 (Rs. ~203 crore as on March 31, 2023), translating into strong liquidity position for the Company.

Credit challenges

Strong competition exerts pressure on operating profit margin and collections – HWIPL faces stiff competition in the Indian cement equipment market, which is dominated by subsidiaries of foreign cement equipment suppliers. Presence of intense competition can lead to pressure on profitability due to aggressive order intake or sharp increase in raw material prices given the fixed price nature of contracts. Further, while the credit profile of clients is strong, the high bargaining power of clients also leads to continued pressure on margins of HWIPL. Consequently, the Company's operating profit margin (OPM) remained subdued at 4.9% for FY2023.

Further, while the working capital cycle has remained stable YoY at a slightly elevated level, it continues to remain comfortable with NWC/OI at 12.7% in FY2023 (FY2022: 10.9%). Total of unbilled revenue and debtors (including retention money) remain elevated at Rs. 418.6 crore as on March 31, 2023 (Rs. 415.3 crore as on March 31, 2022) due to significantly higher execution in FY2023, of which substantial execution/billing happened towards end of FY2023. Further, inventories also increased to Rs 130.79 crore as on March 31, 2023 as compared to Rs 33.33 crore as on March 31, 2022, due to high volume of orders under execution at that point in time.

Further, collection period for some of the customers is typically longer due to delay in quality checks and inspections of material at project sites. The Company's working capital cycle continues to be supported by customer advances (Rs. 178.64 crore as on March 31, 2023 vs Rs. 159.64 crore as on March 31, 2022), which are typically ~10% of the order value, apart from high creditors as well (Rs. 238.59 crore as on March 31, 2023 vs Rs. 167.03 crore as on March 31, 2022).

Vulnerability to volatility in raw material prices – Most of the contracts executed by the Company are primarily fixed price in nature and do not have any price escalation clause. Given the raw material intensive nature of its operations, any volatility in the prices of raw materials (primarily steel) impacts its profitability due to the inability to pass on the input price escalations onto its customers. However, the Company's practice of placing majority of its orders with vendors within couple of months of receiving the orders from the customers in addition to conservative cost estimates while bidding, helps in mitigating the risk to some extent. Moreover, the Company enters into a back-to-back supply arrangement with its vendors and sub-vendors majorly on fixed price to further lessen the risk of increase in raw material prices.

Weak financial performance of the parent entity - Notwithstanding the modest improvements in operating profitability of the KHD Group at a consolidated level over the past few years, ICRA notes the weak financial performance of the Parent Entity, KHD, which had been incurring losses over the last few years. The Group reported modest profits during CY2022 and H1CY2023. However, the sizeable free cash and bank balances mitigates the liquidity pressure to some extent. While there has been no up-streaming of funds to the Parent Entity in the past and HWIPL has indicated that no dividend payment is envisaged to be paid to Parent Entity, the possibility of the same cannot be ruled out.

Liquidity position: Strong

HWIPL's liquidity is expected to be strong evidenced by sizeable free cash and bank of more than Rs. ~300 crore as on December 31, 2023 (Rs.203.1 crore as on March 31, 2023) along with zero debt position and moderate capex requirements going forward. Focus on timely collection from customers, mobilization advances for new orders and stable working capital cycle allows the Company to maintain strong liquidity.

Rating sensitivities

Positive factors – Consistent improvement in operating profitability with timely execution of orders, on a sustained basis, while maintaining a strong liquidity position may trigger a Rating Upgrade.

Negative factors – Any sharp decline in order intake or delay in execution of orders resulting in moderation in operating income and operating margins, thereby impacting the liquidity position might lead to a Rating Downgrade. Further, sizeable up-streaming of funds to the Parent Entity, adversely impacting the liquidity position of the Company can also result in a Rating Downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Operational support from being part of the KHD Group, which is ultimately held by AVIC Group
Consolidation/Standalone	Standalone

About the Company

HWIPL, a wholly-owned subsidiary of KHD Group, is a leading equipment supplier and service Company for the Cement Industry in India. Its scope of services includes process know-how and design, engineering, project management, supply of equipment as well as supervision of the erection and commissioning of cement plants and related equipment's. Additionally, the Company also provides spare parts, maintenance and repair services for cement plants.

The KHD Group is one of the leading equipment suppliers and service provider for the cement industry globally. KHD had initially collaborated with Cimmco Birla Limited in 1964 as a technology collaborator for the Cement Industry in India. Subsequently, the cement business was carved out of Cimmco Birla Limited and acquired by KHD Group in 1999, leading to the establishment of HWIPL.

Key financial indicators (audited)

HWIPL Standalone	FY2022	FY2023
Operating income	922.8	971.7
PAT	33.8	38.5
OPBDIT/OI	4.7%	4.9%
PAT/OI	3.7%	4.0%
Total outside liabilities/Tangible net worth (times)	1.0	1.2
Total debt (incl. lease liabilities)/OPBDIT (times)	0.0	0.2
Interest coverage (times)	19.8	17.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of December 31 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				January 31, 2024	November 09, 2022	September 7, 2021	March 01, 2021	August 21, 2020
1 Issuer Rating	Long term	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]A+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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