

April 29, 2024

ITD Cementation India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term (LT) – Fund-based – Term loan	292.26	292.26	[ICRA]A (Stable); reaffirmed
LT – Fund-based – Working capital	750.00	750.00	[ICRA]A (Stable); reaffirmed
Long-term/Short-term – Non-fund based limits	5,930.00	5,930.00	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	6,972.26	6,972.26	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for ITD Cementation India Limited (ITD) favourably factors in the company's strong performance in FY2024e with revenue likely to exceed Rs. 7,500 crore (over 50% growth YoY), expansion in operating margin by 200bps, as per ICRA estimates, and its strong order book position of Rs. 20,825 crore as on December 31, 2023, translating into order book (OB) to operating revenue (FY2023) ratio of 4.09 times, which provides medium-term revenue visibility. The company's order book recorded a CAGR of 15.4% over the last four-year period ending March 2023, supported by healthy order inflows, with order inflows worth Rs. 14,187 crore during April 2022 to December 2023 period. ITD witnessed healthy increase in operating income (OI) at a CAGR of 12.8% during FY2019-FY2023 and the momentum was sustained in 9M FY2024, with 58% YoY growth, driven by healthy order book addition and timely execution of the same. It is expected to witness YoY growth of ~50% and ~15% in FY2024 and FY2025, respectively. The operating profit margin improved to 9.6% in 9M FY2024 (compared to 7.3% in 9M FY2023), supported by closure of legacy loss-making projects and operating leverage benefits. ICRA expects the operating margins to sustain at similar levels going forward. The ratings continue to draw comfort from diversified order book in terms of segments, geography and clientele and demonstrated track record in project execution. ITD has an established track record of operations of over four decades, supported by an experienced management and demonstrated capabilities in executing relatively complex marine and underground metro projects at geographically diverse locations. The company has a fleet of well-maintained specialised equipment in its portfolio and a strong technical team, which aids its project execution capabilities.

The ratings, however, are constrained by the leveraged capital structure and moderate coverage metrics. The company's total outside liabilities to tangible net worth (TOL/TNW) remained high at 3.1 times as on September 30, 2023 (March 2023: 3.0 times) due to significantly high mobilisation advance availed and extended trade creditors to support the working capital requirement. Its operations are working capital-intensive due to sizeable inventory (largely work-in-progress inventory) as most of the projects have milestone-based billing for certain types of work done. Its inventory days remained high at 160 days as on September 30, 2023 (136 days as on March 31, 2023). Owing to improved operating margins, there has been an improvement in debt coverage metrics with interest coverage at 3.1 times (FY2023: 2.6 times) and DSCR of 1.8 times in H1 FY2024. However, overall coverage and leverage metrics remains modest compared to peers at similar rating level. There has been an increase in the overall capex outlay during FY2023-FY2024e on account of a significant expansion in scale of operations, which has been largely funded by debt. The resultant higher repayment obligations in the medium term will keep the overall coverage metrics under pressure. The ratings factor in the exposure to execution risk, given that a large share of the order book (28% as on December 31, 2023) is in the 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, these are largely new orders received in the last fifteen months ending December 2023 and as informed by the management, requisite approvals

are in place for most of the orders. Any slippages on project execution or profitability front could have a bearing on its credit profile. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past. The heightened competition in the construction sector, along with any volatility in input costs (steel, cement, etc) could exert pressure on ITD's profitability, despite the presence of price escalation clauses in these contracts. Given that the company has funded a sizeable share of its working capital requirement through extended credit period and relatively longer term (~2-3 years) advance from customers, thus any decline in either of these would have a bearing on its liquidity position and result in asset liability mismatch. In the backdrop of expected sizeable growth over the next three fiscals, which will entail increase in working capital requirement, the company's ability to judiciously manage its working capital cycle and maintain adequate liquidity remains important from the credit perspective.

ICRA notes that the parent - Italian-Thai Development PLC's (ITD-Thai) credit profile has significantly weakened in the recent past. While ITD was dependent on ITD-Thai from a qualification/bidding perspective some years back, its Indian operations has requisite technical and financial qualification and has been able to bid for projects on its own over the last few years. Further, there are only two ongoing projects being undertaken by ITD with ITD-Thai, both of which are in advanced stages of completion. As confirmed by the management of ITD, there is no cashflow support expected to be extended to ITD Thai, except royalty (0.5% of contract revenue) and dividend. In the past, ITD has neither declared any exceptional dividend nor extended any loans/advances to ITD Thai. Nevertheless, any higher-than-envisaged support to ITD Thai will remain a key credit monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company would continue to benefit from strong and well diversified order book position, strong execution capabilities and established relationship with its clientele.

Key rating drivers and their description

Credit strengths

Strong order book position provides medium-term revenue visibility – The company has a strong order book position of Rs. 20,825 crore as on December 31, 2023, translating into order book to operating revenue (FY2023) ratio of 4.09 times, which provides medium-term revenue visibility. Its order book recorded a CAGR of 15.4% over the last four-year period ending March 2023, supported by healthy order inflows, with order inflows worth Rs. 14,187 crore during April 2022 to December 2023 period. ITD witnessed a healthy increase in operating income (OI) at a CAGR of 12.8% during FY2019-FY2023, and the momentum was sustained in 9M FY2024, with 58% YoY growth, driven by healthy order book addition and timely execution of the same. ICRA is expected to witness YoY growth of ~50% and ~15% in FY2024 and FY2025, respectively. Though, timely commencement and execution of the current orders are critical to sustain the revenue growth going forward.

Diversified order book in terms of segments, geography and clientele – The order book is well diversified across segments – marine infrastructure (32%), metro and urban infrastructure works (23%), transportation (18%), buildings and industrial structures (12.0%), hydro projects (10%), foundation and specialist engineering (3%) and water and waste water (2.0%) as on December 31, 2023. Further, the order book is geographically diversified with domestic orders (spread across fifteen states) constituting 85% and international orders (spread across two countries) contributing to 15% of the unexecuted order book as on December 31, 2023. The top three states formed 58% of the unexecuted OB (Andhra Pradesh - 22%, Tamil Nadu - 18% and Uttar Pradesh - 18%) as on December 31, 2023. The order book is moderately diversified in terms of projects and clients, with top three clients contributing 49% to the total unexecuted order book and the top 10 orders accounting for 76% of the unexecuted order book as on December 31, 2023.

Demonstrated track record in project execution – ITD has an established track record of operations of over four decades, supported by an experienced management and demonstrated capabilities in executing relatively complex underground metro projects at geographically diverse locations. The company has a fleet of well-maintained specialised equipment in its portfolio and a strong technical team, which aids its project execution capabilities.

Credit challenges

Leveraged capital structure and moderate coverage metrics – The company's capital structure remained leveraged, with total outside liabilities to tangible net worth (TOL/TNW) at 3.1 times as on September 30, 2023 (March 2023: 3.0 times) due to significantly high mobilisation advance availed and extended trade creditors to support the working capital requirement. The company's operations are working capital intensive due to sizeable inventory (largely work-in-progress inventory) as most the projects have milestone-based billing for certain types of work done. Its inventory days remained high at 160 days as on September 30, 2023 (136 days as on March 31, 2023). The debt coverage indicators though improved but remain moderate as compared to peers at similar rating levels, with interest coverage at 3.1 times (FY2023: 2.6 times) and DSCR of 1.8 times H1 FY2024, supported by improvement in operating profit margin due to closure of legacy loss-making projects and operating leverage benefits. There has been an increase in the overall capex outlay during FY2023-FY2024e on account of significant growth in scale of operations, which has been largely funded by debt. The resultant higher repayment obligations in the medium term will keep the overall coverage metrics under pressure.

Moderate execution risk – The company is exposed to execution risk, given that a sizeable share of the order book (28% as on December 31, 2023) is in the 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, these are largely new orders received over the last fifteen months and as informed by the management, requisite approvals are in place for most of the orders. Any slippages on project execution or profitability front could have a bearing on its credit profile. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

Stiff competition, input cost spike could exert pressure on profitability – There is intense competition in the domestic civil construction industry, which is fragmented in nature. The company has made sizeable investments towards machineries/assets for project execution resulting in relatively moderate asset turnover (revenue/gross block). Garnering adequate number of projects and ensuring timely execution remain the key for optimal use of resources and ultimately profitability. The competition has increased in the recent past because of relaxation in the bidding criteria in few segments. This, coupled with a rise in input cost, could exert pressure on ITD's profitability. The built-in price escalation clause in majority of the contracts protects the operating margin from raw material price fluctuation risk to some extent.

Environment and Social Consideration

ITD operates at multiple project sites at any point of time and therefore the risk of business disruptions on account of physical climate risks is low. Given that construction activity generates air pollution, entities in this sector remain exposed to the risk of temporary bans on operations in cities that are more sensitive to deteriorating air quality. Construction entities could also face social risks stemming from the health and safety concerns of workers, which could invite regulatory or legal action, besides reputational harm. ITD has a track record of maintaining healthy relationships with its workers/employees, including contractual labour with no material incidents of slowdown in execution because of workforce management issues.

Liquidity position: Adequate

The company's liquidity position continues to remain adequate, supported by unencumbered cash and bank balance of ~Rs. 300 crore (standalone), undrawn working capital facilities of ~Rs. 149 crore and utilisation of 89% of the sanctioned non-fund based limit as on March 31, 2024. Given its large order book and adequate BGs, it can mobilise funds from customers in case of financial exigencies, with undrawn mobilisation advance of ~Rs. 500 crore as on March 31, 2024.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a significant improvement in the company's operating margins resulting in improved coverage metrics. Specific credit metrics include improvement of interest coverage to 4.0 times and TOL/TNW below 2.0 times on a sustained basis.

Negative factors – Negative pressure on ITD’s ratings could arise in case of deterioration in operating profitability or elongation of working capital cycle, or if significantly high debt-funded capex impacts the company’s liquidity or the overall financial profile. A specific credit metric, which could result in a rating downgrade, is if DSCR is less than 1.6 times on a sustained basis. Further, any higher-than-envisaged support to its parent – ITD Thai, will be a credit negative.

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 December 31, 2023, the Company had three subsidiaries and four JVs, that are enlisted in Annexure II. 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 services for infrastructure projects in India. It has done a variety of work, which includes piling, foundations, ground improvement, geotechnical and specialist engineering, marine structures and ports. It has undertaken 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 ITD Thai Group.

Key financial indicators (audited)

ITD Consolidated	FY2022	FY2023	H1 FY2024*	9M FY2024*
Operating income (Rs. crore)	3,845.4	5,137.9	3,443.0	5,460.2
PAT (Rs. crore)**	36.4	90.5	93.2	169.0
OPBDIT/OI (%)	8.1%	8.3%	9.29%	9.61%
PAT/OI (%)	0.9%	1.8%	2.7%	3.1%
Total outside liabilities/Tangible net worth (times)	2.2	3.0	3.05	NA
Total debt/OPBDIT (times)	1.8	1.8	1.2	NA
Interest coverage (times)	2.2	2.6	3.12	3.27

Source: Company, ICRA Research; * Provisional numbers; ** does not include share of profit/loss from joint venture, All ratios as per ICRA’s calculations

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NA- Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 29, 2024	April 4, 2023	Jan 24, 2023	Oct 7, 2021
1	Term loan	Long term	292.26	160.35	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund-based - Working capital	Long term	750.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Letter of credit/Bank guarantee	Long term/ Short term	5,930.00	--	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund-based - Working capital	Simple
Letter of credit/Bank guarantee	Simple

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	Term loan	April 2015	-	November 2027	292.26	[ICRA]A (Stable)
NA	Fund-based Working Capital	-	-	-	750.00	[ICRA]A (Stable)
NA	Letter of credit/Bank guarantee	-	-	-	5,930.00	[ICRA]A (Stable)/ [ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	ITD 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
ITD Cem-BBJ Joint Venture	51.00%	Consolidated using equity method

Source: ITD annual report

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Chintan Dilip Lakhani
+91 22 6169 3345
chintan.lakhani@icraindia.com

Ayush Dilipkumar Porwal
+91 22 6169 3352
ayush.porwal@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Rohit Agarwal
+91 22 6169 3329
rohit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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