February 20, 2025

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	0.00	0.00	[ICRA]A+ (Stable); reaffirmed
Total	**0.00**	**0.00**	

**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. ~1,375 crore as on November 30, 2024 (~1.15 times of FY2024 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. ~325 crore as on November 30, 2024, and conservative capital structure as reflected by its zero-debt position. Notwithstanding the debtors and inventories levels as on March 31, 2024 and as on November 30, 2024, 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 competition and high bargaining power of its key large clients. 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 cyclicality associated with the 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 from 2015 until 2021. The KHD Group reported losses during H1CY2024. While there has been no up-streaming of funds to the Parent Entity in the past and ICRA understands that no dividend payment is envisaged to be paid to Parent Entity, the possibility of the same cannot be ruled out and remains a key Rating sensitivity.

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, which along with healthy liquidity position is likely to keep the credit profile comfortable.

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 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. 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 healthy increase of ~23.5% in FY2024 over a high base, to Rs. 1,199.7 crore (FY2023: Rs. 971.7 crore) driven by healthy overall capex cycle in the cement industry (including waste heat recovery systems) owing to robust demand in key geographies. The aforesaid demand led to healthy order inflows over the past 3-4 years, resulting in build-up of the order book position of around Rs. ~1,375 crore as on November 30, 2024 (Order book/FY2024 OI ratio at ~1.15 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 visa-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. ~325 crore as on November 30, 2024 (Rs. ~283 crore as on March 31, 2024), 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 completion 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 4.2% for FY2024 (4.9% in FY2023).

Further, working capital cycle improved YoY, and continues to remain comfortable with NWC/OI at 5.7% in FY2024 (FY2023: 12.7%). This improvement was driven by lower inventories and higher customer advances and partly offset by lower creditors and higher unbilled revenues. Total of unbilled revenue and debtors (including retention money) remain elevated at Rs. 464 crore as on March 31, 2024 (Rs. 418 crore as on March 31, 2023) due to increase in the number of projects under execution in FY2024, of which substantial billing happened towards end of FY2024. However, inventories normalised to Rs 58 crore as on March 31, 2024 as compared to Rs 131 crore as on March 31, 2023.

Further, collection period for some of the customers is typically longer due to delay in accounting of material receipts at project sites. The Company's working capital cycle continues to be supported by customer advances (Rs. 277 crore as on March 31, 2024 vs Rs. 179 crore as on March 31, 2023), which are typically ~10% of the order value, apart from moderately high creditors as well (Rs. 149 crore as on March 31, 2024 vs Rs. 239 crore as on March 31, 2023).

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 on 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 basis to further mitigate 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 from 2015 until 2021. The Group has witnessed weak profitability over the past few years. 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. ~325 crore as on November 30, 2024 (Rs.283 crore as on March 31, 2024) along with zero debt position and moderate capex requirements going forward. Focus on timely collection from customers, mobilization advances/payments from customers 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 upstreaming 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	NA; Only 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	FY2023	FY2024
Operating income	971.7	1,199.7
PAT	38.5	39.0
OPBDIT/OI	4.9%	4.2%
PAT/OI	4.0%	3.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.1
Total debt/OPBDIT (times)	0.24	0.14
Interest coverage (times)	17.1	16.6

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

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Issuer Ratings	Long Term	-	Feb 20, 2025	[ICRA]A+ (Stable)	Jan 31, 2024	[ICRA]A+ (Stable)	Nov 09, 2022	[ICRA]A+ (Stable)	Sep 07, 2021	[ICRA]A+ (Stable)

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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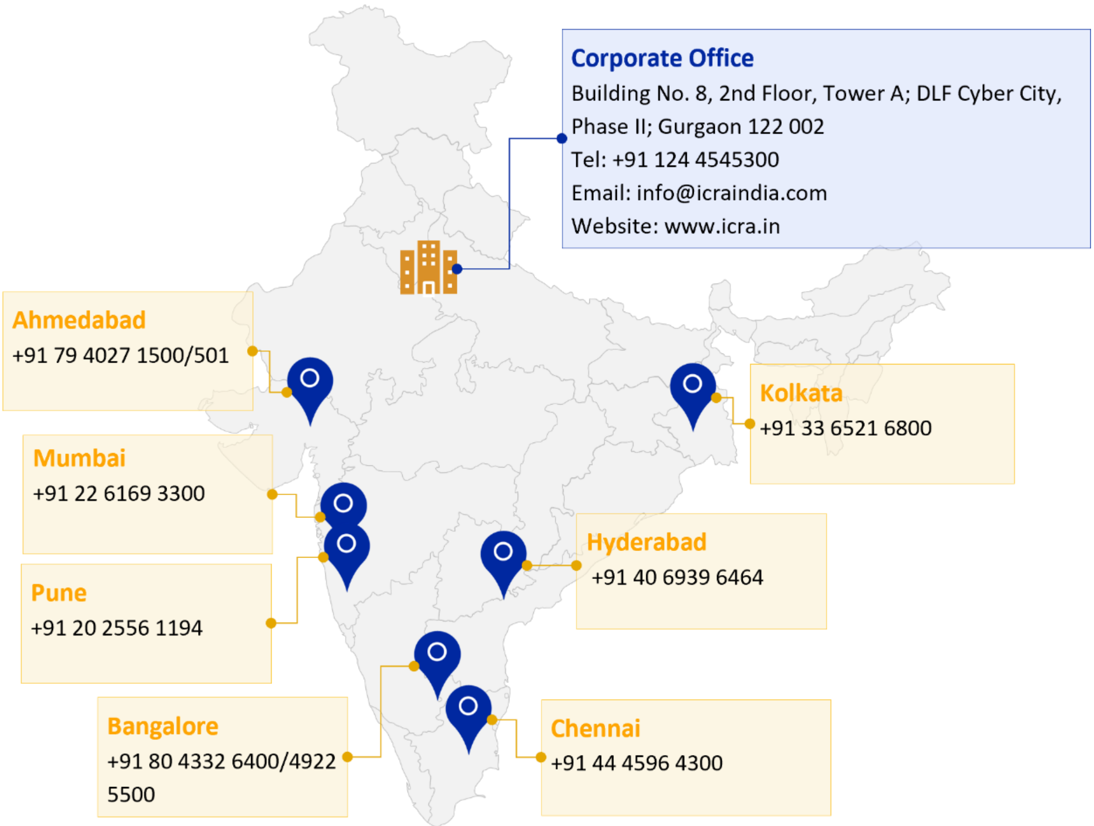

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