

December 07, 2020

## ITD-ITD Cem Joint Venture: Ratings reaffirmed; Outlook revised to Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Term Loan	48.0	48.0	[ICRA]A(CE) (Negative); Reaffirmed and outlook revised to Negative from stable
Non-Fund Based Limits	300.0	300.0	[ICRA]A1 (CE); Reaffirmed
Fund Based-Working Capital	30.0	30.0	[ICRA]BBB+ (Stable); Reaffirmed
Non-Fund Based Limits	5.0	5.0	[ICRA]BBB+ (Stable); Reaffirmed
<b>Total</b>	<b>383.0</b>	<b>383.0</b>	

\*Instrument details are provided in Annexure-1

<b>Rating Without Explicit Credit Enhancement</b>	<b>[ICRA]BBB+</b>
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*Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement*

### Rationale

#### For the [ICRA]A(CE) (Negative)/[ICRA]A1(CE) rating

The above ratings are based on an unconditional and irrevocable corporate guarantee from ITD Cementation India Limited (ITD, rated [ICRA]A (Negative)/[ICRA]A1) for the rated bank facilities of the ITD JV. The ratings address the servicing of the bank lines to happen as per the terms of the underlying sanction letter and the guarantee arrangement and assume that the guarantee will be duly invoked, as per the terms of the underlying sanction letter and guarantee agreements, in case there is a default in payment by the borrower. The 'Negative' outlook on the rating reflects ICRA's outlook on the rating of the guarantor 'ITD Cementation India Limited'

#### Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by ITD Cementation India Limited (ITD) in favour of the said facility. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated facility, it does not have a well-defined invocation and payment mechanism. Taking cognizance of the above, ICRA has assigned a rating of [ICRA]A(CE) (Negative)/[ICRA]A1(CE) to the said facility against the Unsupported Rating of [ICRA]BBB+ [and in relation to the guarantor's (ITD) rating of [ICRA]A (Negative)/ [ICRA]A1]. In case the rating of the guarantor were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this facility instrument may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

### Salient covenants of the rated facility

- » *The company shall not declare dividend for any year except out of profits relating to that year after making all due and necessary provisions and provided further that no default had occurred in any repayment obligation to Exim Bank. Any deviation shall require prior written approval of Exim Bank.*
- » *JV shall not resort to double financing either in foreign currency or in Indian Rupees against assets financed out of Exim credit facilities.*
- » *Any change in the management/holding structure of the JV shall require prior permission of the Bank.*

### For the [ICRA]BBB+(Stable)

The [ICRA]BBB+ rating take into account the strong parentage of ITD-ITD Cem Joint Venture (ITD JV), by virtue of being a part of ITD Group which has significant experience in executing metro projects. Further, the Kolkata metro project, wherein the complex tunnelling work is nearing completion, is likely to aid the profitability in H2 FY2021.

The rating is, however, constrained with the entire unexecuted order book being contributed by two clients namely Kolkata Metro Rail Corporation Limited and Kolkata Environmental Improvement Investment Program; however, strong credit profile of clients mitigates counterparty credit risk to some extent. Further, ITD JV's productivity in Q1 FY2021 was severely impacted on account of COVID related lockdown. Given the location of the metro project, which contributes majority of ITD JV's unexecuted order book, in Kolkata which has been affected by Covid, stringent social distancing norms followed at the project sites led to subdued project execution efficiency in Q2 FY2021.

## Key rating drivers and their description

### Credit strengths

**Corporate Guarantee from ITD Cementation India Limited (ITD)** – ITD ([ICRA]A (Negative)/[ICRA]A1) has given unconditional and irrevocable corporate guarantee for 100% of the debt (non-fund-based facilities from EXIM Bank) of ITD JV. The ratings take into account the undertaking provided by the guarantor that it would ensure that the rated debt obligations are serviced on or prior to the due date, irrespective of invocation of the guarantee by the lender.

**Strong parentage by virtue of being a part of ITD group** – The company has a strong parentage, by virtue of being a part of ITD group, which has vast experience in undertaking metro projects across various geographies.

### Credit challenges

**High concentration risk** - Concentration risk continues to remain high with the entire unexecuted order book being contributed by two clients namely Kolkata Metro Rail Corporation Limited and Kolkata Environmental Improvement Investment Program; however, strong credit profile of clients mitigates counterparty credit risk to some extent.

**Pending execution risk and impact of COVID** - ITD JV's productivity in Q1 FY2021 was severely impacted on account of COVID related lockdown. Given the location of the metro project, which contributes majority of ITD JV's unexecuted order book, in Kolkata which has been affected by Covid, stringent social distancing norms followed at the project sites led to subdued project execution efficiency in Q2 FY2021. However, the complex tunnelling work for the project is nearing completion which is likely to aid the profitability in H2 FY2021.

## Liquidity position

The liquidity position of CIT is adequate reflected in the unencumbered cash and bank balances which stood at Rs.246.72 crore as on March 31, 2020. There is no long-term debt outstanding as on March 31, 2020.

## Rating sensitivities

### For the [ICRA]A(CE) (Negative)/[ICRA]A1(CE) ratings

**Positive triggers:** Given the negative outlook, the crystallisation of scenarios for a rating upgrade is unlikely, however, outlook can be revised to stable in case of revision in outlook of the guarantor.

**Negative triggers:** Rating can be downgraded if there is deterioration in the credit profile of the company and/or weakening of the credit profile of the guarantor and/or weakening of linkages with the guarantor.

### For the [ICRA]BBB+ (Stable) rating

**Positive triggers:** Given the project's attributes, the crystallisation of scenarios for rating upgrade is unlikely over the medium term, however the rating can be upgraded if there is a significant increase in the profitability of the company.

**Negative triggers:** Negative pressure on the above ratings of ITD JV could arise, if there is any significant cost overrun due to delay in completing the project and/or there is elongation in working capital cycle thereby weakening the liquidity profile of ITD JV.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Construction Entities Methodology</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a> Parent Company: ITD Cementation India Limited (ITD)
Parent/Group Support	The assigned ratings for the bank facilities of the ITD JV (Term Loan of Rs. 48.0 crore and Non-Fund based limits of Rs. 300 crore) is based on an unconditional and irrevocable corporate guarantee from ITD Cementation India Limited (ITD, rated [ICRA]A (Negative)/[ICRA]A1).
Consolidation/Standalone	The assigned ratings on the Rs. 30 crore of working capital limits and Rs. 5 crore of non-fund based facility factors in ICRA's expectation that ITD Cementation India Limited (rated [ICRA]A (Negative)/[ICRA]A1), to be willing to extend financial support to ITD JV, should there be a need, given the high strategic importance that ITD JV holds for ITD for meeting its diversification objectives. Both ITD JV and ITD also share a common name, which in ICRA's opinion would persuade ITD to provide financial support to ITD JV to protect its reputation from the consequences of a group entity's distress.
	Standalone

## About the company

ITD-ITD Cem Joint Venture (ITD JV) is a joint venture between Thailand-based Italian-Thai Development Public Company Limited (ITD Thai, Thailand's largest contractor) and India-based ITD Cementation India Limited (ITD). ITD Thai holds 51% stake in the ITD JV and 49% of the stake in ITD JV is owned by ITD. ITD enters into project-specific JVs with ITD Thai for projects where experience of the latter is required to meet technical qualification criteria. Project-specific debt is contracted on the books of the JVs. The JV is currently executing orders for Kolkata Metro Rail Corporation Limited and Kolkata Environmental Improvement Investment Program. ITD JV has an outstanding order book of Rs.447.3 crore as on September 30, 2020.

## Key financial indicators of ITD JV

	FY2019	FY2020 (Prov.)
Operating Income (Rs. crore)	274.2	196.9
PAT (Rs. crore)	-8.8	14.9
OPBDIT/OI (%)	3.4%	7.2%
PAT/OI (%)	-3.2%	7.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.9
Total Debt/OPBDIT (times)	1.0	0.0
Interest Coverage (times)	1.0	3.2

Source: Company, ICRA research

## About the Guarantor:

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.

**Link to the Press Release published on ICRA website:** [ITD Cementation India Limited](#)

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating Dec-7-2020	FY2020		FY2019	FY2018
						Feb-26-2020	Sep-27-2019		
1	Term Loan	Long Term	48.0	Fully repaid	[ICRA]A(CE) (Negative)	[ICRA]A(CE) (Stable)	[ICRA]A(CE)&	-	[ICRA]A(SO) (Stable)
2	Non-Fund based Limits	Short Term	300.0	-	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(CE)&	-	[ICRA]A1(SO)
3	Working Capital	Long Term	30.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&	-	[ICRA]A(SO) (Stable)
4	Non-Fund based Limits	Long Term	5.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&	-	[ICRA]A1(SO)

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	July 05,2017	-	Fully repaid	48.0	[ICRA]A(CE) (Negative)
NA	Non-Fund based Limits	-	-	-	300.0	[ICRA]A1(CE)
NA	Working Capital	-	-	-	30.0	[ICRA]BBB+ (Stable)
NA	Non-Fund based Limits	-	-	-	5.0	[ICRA]BBB+ (Stable)

Source: ITD JV

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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.

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For more information, visit [www.icra.in](http://www.icra.in)

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