

January 24, 2023

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	100.0	100.0	[ICRA]A (Stable); reaffirmed
Long-term (LT) Fund-based Working Capital	650.0	650.0	[ICRA]A (Stable); reaffirmed
Long-term/Short-term Non-fund Based Limits	4,150.0	4,150.0	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Total	4,900.0	4,900.0	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of ITD Cementation India Limited (ITD) takes into account the healthy order inflow of Rs. 7,770 crore in FY2022 and Rs. 7,160.0 crore in H1 FY2023, leading to a robust unexecuted order book (OB) of Rs. 21,713 crore as on September 30, 2022 and a healthy OB/Operating Income (OI) ratio of 5.7 times, thereby providing medium-term revenue visibility. The ratings note the overall satisfactory performance on a year-on-year (YoY) and quarter-on-quarter (QoQ) basis, its adequate liquidity position with unencumbered cash balances of Rs. 224.46 crore as on September 30, 2022 and undrawn working capital facilities with moderate working capital utilisation of 59% during November 2021–November 2022, thereby providing adequate cushion. ITD's working capital intensity has been supported by extended credit period from its suppliers with whom the company has a long-standing relationship. The ratings continue to draw comfort from its demonstrated track record in project execution across various infrastructure sub-segments such as marine and MRTS (both these segments contribute to 51.99% of the unexecuted order book as on September 30, 2022), which require significant technical expertise. ITD is backed by strong technical capabilities of its parent Italian Thai Development Public Company Limited, which is one of the largest construction companies in Thailand.

The ratings, however, are constrained by the modest debt coverage metrics with interest coverage at 2.02 times in H1 FY2023. The ratings are constrained by the execution risk, given that a significant share of the order book (61%) is in the nascent stages of execution (less than 10% executed). Nevertheless, these are largely new orders received in FY2022 and H1 FY2023. 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 (133 days as on March 31, 2022) as there is a build-up of work-in-progress (WIP) for the metro and marine projects, which are primarily funded by extended credit period from its suppliers with whom the company has a long-standing relationship and balance through mobilisation advances. This has led to TOL/TNW remaining high at 2.2 times as on March 31, 2022 (2.0 times as on March 31, 2021). ICRA also notes that the company has bagged a large order in the roads segment recently and is also planning debt-funded capex in the medium term. ITD has sizeable capex plans during FY2023-FY2024, which will be funded largely by debt. Moreover, the increase in creditors and mobilisation advances on account of overall increase in scale of operations will keep overall leverage metrics elevated in the medium term. Going forward, company's ability to tie long-term fund remains important to maintain a comfortable current ratio.

Key rating drivers and their description

Credit strengths

Robust order book provides medium-term revenue visibility – The company's order inflow has remained healthy with addition to order book of Rs. 7,770 crore in FY2022 and Rs. 7,160 crore in H1 FY2023, which has led to a robust order book position of Rs. 21,713.1 crore as on September 30, 2022. As a result, the ratio of the pending order book to the consolidated OI of FY2022 remained healthy at 5.7 times, thereby providing medium-term revenue visibility.

Demonstrated track record in project execution as well strong technical capabilities – ITD has a demonstrated track record in project execution across various infrastructure sub-segments such as marine and MRTS (both these segments contribute to 51.99% of the unexecuted order book as on September 30, 2022), which require significant technical expertise. It is backed by strong technical capabilities of its parent Italian Thai Development Public Company Limited, which is one of the largest construction companies in Thailand. The company has been recently awarded a large road construction order of Rs. 4,850 crore from the Adani Group. ICRA understands from the management that since ITD is expected to sub-contract a large share of the project, the overall investment would be on a relatively lower side as compared to metro projects.

Credit challenges

Moderate coverage metrics; elongated working capital cycle – ITD's debt coverage indicators continue to remain moderate with interest coverage at 2.03 times in H1 FY2023. Input cost pressure, along with losses in the Bangalore metro project has dragged its operating margins in the recent past, which resulted in modest coverage metrics. Its inventory days remained high at 133 days as on March 31, 2022, as there is a build-up of WIP for metro and marine projects, which is largely funded by the extended credit period from its suppliers with whom the company has a long-standing relationship and the balance through mobilisation advances. This has led to TOL/TNW remaining high at 2.2 times as on March 31, 2022 (2.0 times as on March 31, 2021). Any adverse movement in working capital intensity will be a key monitorable.

Exposure to execution risk – The company is exposed to execution risk, given that a significant share of the order book (61% of the order book as on September 30, 2022) 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, ICRA notes that these are largely new orders which the company received in FY2022 and H1 FY2023. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

Liquidity position: Adequate

The company has an adequate liquidity position with unencumbered cash balances of Rs. 224.46 crore as on September 30, 2022 and undrawn working capital facilities with moderate working capital utilisation of 59% during November 2021 – November 2022, thereby providing adequate cushion.

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 on a sustained basis.

Negative factors – Negative pressure on ITD's ratings could arise if there is sustained weakening of operating margins and if the DSCR is less than 1.6 times on a sustained basis.

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, 2022, the company had three subsidiaries, and four JVs, that are enlisted in the below 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 (EPC) services for infrastructure projects in India. ITD has done a variety of work, which includes piling, foundations, ground improvement, geotechnical and 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.

Key financial indicators (audited)

ITD Consolidated	FY2021	FY2022	H1 FY2023
Operating income	2,727.7	3,809.0	2,132.5
Adjusted PAT *	-17.1	36.4	22.2
Reported PAT	16	69	50
OPBDIT/OI	8.3%	7.9%	7.0%
Adjusted PAT/OI (%)*	-0.6%	1.0%	1.0%
Total outside liabilities/Tangible net worth (times)	2.0	2.2	2.5
Total debt/OPBDIT (times)	1.7	1.7	1.9
Interest coverage (times)	1.6	2.1	2.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

* Adjusted PAT does not include share of profits/loss from joint ventures which are not fully consolidated

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020			
				Jan 24, 2023	Oct 7, 2021	Dec 7, 2020	Feb 25, 2020	Sep 19, 2019	July 4, 2019	
1 Term Loan	Long term	100.0	89.21	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative);	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	
2 Cash Credit/Working Capital Demand Loan	Long term	650.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	
3 Letter of credit/Bank guarantee	Long term/ Short term	4,150.0	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A &/ [ICRA]A1 &	[ICRA]A (Stable)/ [ICRA]A1	

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit/Working Capital Demand Loan	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	-	April 2025	100.0	[ICRA]A (Stable)
NA	Cash Credit/ Working Capital Demand Loan	-	-	-	650.0	[ICRA]A (Stable)
NA	Letter of credit/Bank guarantee	-	-	-	4150.0	[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 FY2021

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About ICRA Limited:

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