Intercontinental Consultants and Technocrats Pvt. Ltd.

July 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term: Fund-Based Limits	55.0	55.0	[ICRA]BBB+ (Negative); downgraded from [ICRA]A (Stable)
Long Term: Non-Fund Based Limits	105.0	105.0	[ICRA]BBB+ (Negative); downgraded from [ICRA]A (Stable)
Short Term: Fund-Based Limits (Sub-limit of Long-Term Fund-Based Limits)	(57.0)	(57.0)	[ICRA]A2; downgraded from [ICRA]A2+
Short-Term Non-Fund Based Limits	3.0	3.0	[ICRA]A2; downgraded from [ICRA]A2+
Total	**163.0**	**163.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating outstanding on the Rs. 55.0-crore fund-based facilities and the Rs. 105.0-crore non-fund-based facilities of Intercontinental Consultants and Technocrats Pvt. Ltd. (ICT or the company) from [ICRA]A (pronounced ICRA A) to [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the long-term rating has been revised to Negative. ICRA has also downgraded the short-term rating outstanding on the Rs. 3.0-crore non-fund based and the Rs. 57.0-crore fund-based limits (sub-limit of long-term fund-based limits) from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A2 (pronounced A two).

Rationale

The downgrade in the ratings takes into account the deterioration in liquidity profile of the company for the second consecutive year, as evidenced by nearly full utilisation of working capital limits in H2 FY2018 (which had continued in April and May 2018). This has been driven by consistent increase in receivables over six months (45.8% as on March 31, 2018 as against 39.5% on March 31, 2017), inability to recover dues from select overseas clients (as envisaged), continued delays in project execution (including one-off instances of project cancellations) and pending claims with domestic and international tax authorities. Delays in project execution over the last two years has also translated into muted revenue growth (3.5% in FY2018 over corresponding previous fiscal), which coupled with increased employee expenses has resulted in sub-par profitability metrics. Furthermore, amid a decline in operating profits with increased debt levels, the coverage indicators have deteriorated with TD/ OPBITDA declining to 4.6 times in FY2018. While ICRA had expected resumption of project execution pace in line with expansion in road construction activities in the country and recovery of past dues from overseas project as guided by management, along with receipt of tax related claims to provide liquidity support, the same did not materialise during the fiscal. However, promoters have infused equity in June 2018 to provide liquidity support for the interim period. The company's ratings are also constrained by relatively high sectoral concentration risk with highways division (accounting for more than 80% of the company's revenues over the past few years) despite diversification initiatives, which are yet to yield notable results. As ICT continues to face competition from established local, multinational and boutique firms in the domestic and international markets, retention of key personnel remains critical to sustaining competitive business profile (which lead to increased employee expenses). ICRA also takes cognisance of the inherent risk of volatility in forex rates for international projects; however, the risk is partially mitigated by the natural hedge from the payments made to international associates in the local currency.

The ratings, however, continue to factor in the established presence and track record of ICT in providing consultancy services across diverse sectors and its strong client profile, which includes government departments and several multilateral funding agencies like the World Bank and Asian Development Bank (ADB), among others. Moreover, presence in several international markets provides geographic diversity. While healthy order book position of Rs. 664.5 crores as on March 31, 2018 lends visibility to future revenue growth, timely execution of the projects remain crucial to enable remunerative realisations. Also, the ratings factor in the equity infusion of Rs. 4.5 crore made during June 2018, in addition to continued short-term funding support (albeit interest bearing) provided by the promoters. However, planned conversion of promoter loans into equity in Q2FY2019 (Rs. 8 crore out of ~Rs. 20 crore as on March 31, 2018) through preferential allotment and further infusion of equity, in case of non-realisation of long pending receivables in FY2019 as envisaged, remains a key rating monitorable.

Going forward, apart from the recovery of long pending receivables (more than 365 days), improvement in order book position and timely execution of projects, while maintaining a stable capitalisation and debt coverage profile, remain the key rating sensitivities.

Outlook: Negative

The revision in outlook to Negative reflects the continued deterioration in ICT's receivable cycle and delays in project execution, leading to stretched liquidity position. The ratings may be downgraded further if no meaningful recovery is witnessed in the same or there are sizable write-offs of overdue receivables, impacting its financial profile. The outlook may be revised to Stable if recovery of tax/claims from Government entities, faster collection cycle leads and/or equity infusion, coupled with revival in order execution pace and new award activity, aids the revenue and profitability growth, leading to improvement in financial and liquidity profile of the company.

Key rating drivers

Credit strengths

Experienced promoters and strong track record of operations in infrastructure domain – ICT's core competency lies in providing consultancy, design, management and supervision services. From a predominantly highway segment focussed business, it has ventured out to diverse segments such as airports, urban and regional infrastructure development, traffic and transportation, ports and tourism, etc. The company has rich experience of more than 30 years with more than 600 projects across sectors and has an established reputation in the industry, as evidenced by its strong client portfolio in Indian and overseas markets.

Healthy order book position provides revenue visibility; albeit timely execution remains crucial – As of March 31, 2018, ICT had an order book of Rs. 664.5 crore, aided by fresh orders, especially in the highways and railways segment, which is 2.4 times the operating income reported in FY2018. A healthy order book provides revenue visibility and growing operations of ICT over the medium term. Nonetheless, timely commencement and execution of work remains crucial to enable remunerative realisations.

Diversified customer profile and widespread area of operations – Being an old as well as established player in the industry, ICT shares a strong relationship with most of the institutions in infrastructure segment. The same is reflected in its clientele, which is dominated by projects by various state and Central Government organisations from India. Major overseas projects are backed by global financial institutions like the World Bank and Asian Development Bank (ADB), among others.

Favourable outlook for the industry, given the planned infrastructure spends – Increased budgetary allocation for the infrastructure segment, several initiatives under smart cities mission, increasing focus on Bharatmala projects (highway development), focus on electrification of existing rail network, development of railway stations under public private partnerships (PPP) and high-speed rail network, among several other initiatives, provides a favourable outlook for the consulting industry in terms of new award activity over the near to medium term.

Credit challenges

Constrained liquidity owing to elongated receivables position; however, recent equity infusion by promoters provide immediate support – ICT provides services in the infrastructure sector where majority of the projects are backed by Government entities. These typically have long payment approval cycles, leading to longer receivable period. In addition, in most projects, retention money of 5-10% is returned only after serving a defect liability period (6-12 months) from the project completion date, which gets held back if the project faces delays. More recently, GST related claims have been held back by project funding departments. In overseas markets, remittance from Tanzanian projects (constitution 25% of receivables in the above 180 days category) have also been delayed due to tax related issues. Resultantly, ICT has witnessed consistent increase in receivable holding period, from 131 days in FY2015 to 177 days in FY2018, which has stretched its liquidity position, with debtors exceeding 180 days (excluded while calculating drawing power) increasing from ~40% in FY2016 to ~46% in FY2018. Increased dependence on bank borrowings, without commensurate increase in cash accruals or any long-term fund infusion, has led to deterioration in debt coverage metrics for the second consecutive year in FY2018, with interest coverage declining to 1.7 times and Total debt/ OPBITDA increasing to 4.6 times in FY2018 from 1.8 and 4.1 times, respectively, in FY2017. While the risk debtors turning bad remains minimal, as majority the projects are backed by Governments, PSU entities and multilateral organisations (like ADB and WB), the delays in recoveries have constrained the financial flexibility of the firm, as evidenced from the nearly full utilisation of working capital limits during H2 FY2018. While equity infusion of Rs. 4.5 crores by the promoters in June 2018 provide immediate support, the recovery of the long-pending receivables remain critical for improving ICT's liquidity position.

Muted revenue growth and stagnant profitability in FY2018 - ICT reported 3.5% YoY increase in operating income to Rs. 278.8 crore in FY2018 (provisional results), marginally better than the 2.2% YoY growth witnessed in FY2017. The same has been attributed to procedural delays in project execution wherein resources were already deployed and one-off instances of project cancellation. Furthermore, with relatively stagnant top-line, the operating profit margins of the company have moderated significantly to ~ 6% (from 10-11% in FY2015 and FY2016) over the past two years owing to high employee costs and increasing competition.

Competitive pressures from established local, multinational and boutique firms across business segments – The domestic project consultancy industry is characterised by intense competition among several large and established consulting players, leading international consultants and numerous boutique firms. This has resulted in aggressive bidding and increased compensation levels across the industry, impacting the profitability margins. Notwithstanding the same, ICT's geographically diversified presence partially mitigates this risk as margins on international projects remain relatively healthy given the relatively low competitive intensity in these markets due to high entry barriers in qualifying for such projects.

Sectoral concentration in the order book – The order book of ICT is characterised by the sectoral concentration with a significant contribution from highway projects (~80%). Though the company has taken initiatives over the years to diversify its sectoral presence, the results are yet to notably materialise. Given the current order book, the other growth drivers for the company over the medium term would be railway/metro and urban development segment.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated in 1987, ICT is a ISO-9001:2008 certified consulting organisation providing a wide range of services across several disciples—of which highways, urban and regional infrastructure development, metro and railways are the major revenue drivers. ICT has a team of over 1,400 professionals with expertise in the fields of planning, feasibility studies, detailed engineering, economic and financial analysis, project management, and construction supervision. The company is one of the leading consultants in the highways and road segment with a good track record in terms of project delivery. It has worked on a large number of domestic projects for the National Highway Authority of India (NHAI), various state highway authorities as well as on overseas projects across various countries. The company has a pan India presence, with its corporate office at New Delhi and a number of branch and project offices spanning India and abroad, including Bangladesh, Ethiopia, Mongolia, Philippines, Tanzania, Kenya, etc.

Key Financial Indicators (Audited)

	FY2017	**FY2018***
Operating Income (Rs. crore)	269.4	278.8
PAT (Rs. crore)	3.3	3.8
OPBDIT/ OI (%)	6.2%	6.3%
RoCE (%)	9.7%	9.5%
Total Debt/ TNW (times)	0.7	0.8
Total Debt/ OPBDIT (times)	4.1	4.6
Interest Coverage (times)	1.8	1.7

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability-Capital Work-in Progress); *Provisional numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Chronology of Rating History for the past 3 years Date & Rating in FY2018 September 2017	April 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 September 2015
1	Fund Based- Cash Credit	Long-Term	55.0	**NA**	**[ICRA]BBB+ (Negative)**	**[ICRA]A (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	Non-Fund Based- Bank Guarantee	Long-Term	105.0	**NA**	**[ICRA]BBB+ (Negative)**	**[ICRA]A (Stable)**	**[ICRA]A + (Stable)**	**[ICRA]A + (Stable)**	**[ICRA]A + (Stable)**
3	Non-Fund Based- Treasury Limits	Short-Term	3.0	**NA**	**[ICRA]A2**	**[ICRA]A2+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based- Cash Credit	--	--	--	55.0	[ICRA]BBB+ (Negative)
NA	Non-Fund Based- Bank Guarantee	--	--	--	105.0	[ICRA]BBB+ (Negative)
NA	Non-Fund Based Treasury Limits	--	--	--	3.0	[ICRA]A2

Source: ICT

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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