

February 26, 2020

CEC ITD CEM TPL JV: Removed from 'rating watch with developing implications' and 'Stable' outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-Term Fund Based Limits	200.0	200.0	[ICRA]A1(CE) ^; removed from 'rating watch with developing implication'
Long-Term (LT) / Short-Term Non-Fund Based Limits	450.0	450.0	[ICRA]A(CE) (Stable)^/ [ICRA]A1(CE) ^; removed from 'rating watch with developing implication' and 'Stable' outlook assigned
Total	650.0	650.0	

*Instrument details are provided in Annexure-1

^The rating is principally based on a corporate guarantee from ITD Cementation India Limited and TATA Projects Limited in the ratio of 60:40 respectively and an undertaking provided by the guarantors that it would ensure that the related debt obligations are serviced on or prior to the due date.

Rating Without Explicit Credit Enhancement

[ICRA]BBB+

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

The above rating is based on the unconditional and irrevocable corporate guarantee from ITD Cementation India Limited (ITD, rated [ICRA]A (Stable)/[ICRA]A1) and Tata Projects Limited (TPL), in the ratio of 60:40 respectively for the Rs. 650-crore bank lines of CEC ITD CEM TPL JV (CIT) and an undertaking provided by the guarantors 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. The 'Stable' outlook on the rating reflects ICRA's outlook on the rating of the guarantor 'ITD Cementation India Limited'.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by ITD Cementation India Limited (ITD) and Tata Projects Limited (TPL) is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]A(CE) (Stable)/[ICRA]A1(CE)** against the Unsupported Rating of **[ICRA]BBB+**. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants

- » During the currency of the loan, the Guarantors will not, (a) amend any provision of JV's major constitutive documents in such manner that will adversely affect lenders rights under the facilities, (b) Formulate any scheme of

amalgamation or reconstruction and (c) induct a person in JV who is a Director on the Board of a company which has been identified as willful defaulter.

- » If the rating of the instrument falls below BBB-, it would be construed as an event of default and the loan will get accelerated.
- » Apart from overdraft/NFB/BG limits for the project and project specific BGs already issued, the company cannot raise any additional borrowing other than equity and/or subordinated shareholder's loan
- » Liquidated damages demanded by Mumbai Metro Rail Corporation Limited (MMRCL) having substantial impact on the project for delay in execution of the project and any default under the contract will be construed as an event of default and the loan will get accelerated
- » Change in ownership structure of the JV will be construed as an event of default and the loan will get accelerated

Key rating drivers and their description

Credit strengths

Corporate Guarantee from ITD and TPL – ITD and TPL has given an unconditional and irrevocable corporate guarantee for the rated facilities of CIT in the ratio of 60:40 respectively. The rating is based on the undertaking provided by the guarantors that it would ensure that the related debt obligations are serviced on or prior to the due date.

Liquidity position: Adequate

The liquidity position of the guarantor ITD Cementation India Limited is **adequate** reflected in the unencumbered cash balances of Rs.90 crore as of December 31, 2019. The utilization levels for the fund-based limits have been moderate w.r.t to the drawing power with average utilization being 70% for the period Jan 2019 – Dec 2019. The company's principal debt repayment obligation in FY2020 is Rs.10.82 crore and Rs.11.1 crore in FY2021, which can be comfortably met through expected cash flow from operations.

Rating sensitivities

The rating assigned to the Rs. 650 crore bank line would remain sensitive to any movement in the rating or outlook of the guarantor ITD Cementation India Limited.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Company: ITD Cementation India Limited (ITD) The assigned ratings are based on unconditional, irrevocable corporate guarantee extended by CIT's parent company – ITD Cementation India Limited.
Consolidation/Standalone	Standalone

About the company

Incorporated in May 2015, CEC ITD Cem TPL JV (CIT) is a joint venture between ITD, Continental Engineering Construction (CEC) and TPL with ITD holding 40% stake, CEC holding 40% and TPL holding 20% in the JV. However, as per the current arrangement, ITD and TPL would be contributing to any financing requirements in the ratio of 60:40 and the profits would also be shared between the two in the same ratio. In July 2016, CIT was awarded a contract by the Mumbai Metro Railway Corporation Limited (MMRCL) to design and construct underground sections including three underground

stations at Siddhivinayak, Dadar and Shitla Devi Temple and associated Bored Tunnel as part of the Colaba-Bandra-Seepz Line metro corridor project (Line-3) for the Mumbai metro. The package was awarded to CIT at a value of Rs. 2830.10 crore.

Key financial indicators (CIT, audited)

	CY 2017	15MFY 2019*
Operating Income (Rs. crore)	239.1	599.1
PAT (Rs. crore)	0.0	27.5
OPBDIT/OI (%)	1.6%	15.5%
RoCE (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	NM	13.2
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	1.1	26.3
DSCR	2.8	22.3

Source: Company, ICRA research

*Reporting period has been changed from Calendar year to Financial year. Accordingly, the financial year 2019 of the Company is for a period of 15 months commencing from January 1, 2018 and ending on March 31, 2019.

About the Guarantor:

ITD - Incorporated in June 1978, ITD is a public limited company engaged 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.

Key Financial Indicators (Consolidated)

	15MFY 2019*	9MFY 2020
Operating Income (Rs. crore)	3165.1	2124.9
PAT# (Rs. crore)	83.3	31.3
OPBDIT/ OI (%)	10.5%	10.1%
RoCE (%)	16.0%	12.2%
Total Debt/ TNW (times)	0.5	0.5
Total Debt/ OPBDIT (times)	2.0	1.9
Interest coverage (times)	2.7	2.3

Source: Company, ICRA research

#PAT does not include share of profits/loss from joint ventures

*Reporting period has been changed from Calendar year to Financial year. Accordingly, the financial year 2019 of the Company is for a period of 15 months commencing from 1st January 2018 and ending on 31st March 2019.

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

TPL - Incorporated in 1979, is one of India's leading EPC (Engineering, Procurement, Construction) companies. It is a part of the Tata group and is held by several Tata Group companies. The largest shareholder is The Tata Power Company Limited ([ICRA]AA- (Stable) / [ICRA]A1+), which holds 47.8% of the subscribed equity shares of TPL. The company operates through three strategic business units: industrial infrastructure, urban infrastructure, and quality services. Industrial infrastructure has six business units, viz. power generation; transmission and distribution; oil, gas, and hydrocarbon; transportation; construction & environment; and metals and minerals. Urban infrastructure has two verticals, viz. buildings and airport, and transport and hydro. Quality services segment has two verticals, viz. testing, inspection, and certification; and operations and maintenance.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)						Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating		FY2019	FY2018	FY2017
					26-February-2020	27-Sep-2019	05-Jul-2019			
1	Overdraft	Short Term	200.0	-	[ICRA]A1(CE)	[ICRA]A1(CE) &	[ICRA]A1(SO)	[ICRA]A1(SO)	[ICRA]A1(SO)	NA
2	Bank Guarantee/Letter of Credit	Long Term/Short Term	450.0	-	[ICRA]A(CE) (Stable) / [ICRA]A1(CE)	[ICRA]A(CE) & / [ICRA]A1(CE) &	[ICRA]A(SO) (Stable) / [ICRA]A1(SO)	[ICRA]A(SO) (Stable) / [ICRA]A1(SO)	[ICRA]A-(SO) (Stable) / [ICRA]A1(SO)	NA

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 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	Bank Guarantee/Letter of Credit	-	-	-	450.0	[ICRA]A (CE) (Stable) / [ICRA]A1 (CE)
NA	Overdraft	-	-	-	200.0	[ICRA]A1(CE)

Source: CIT

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