Humboldt Wedag India Private Limited: Rating reaffirmed

Summary of rating action

<table>
<thead>
<tr>
<th>Instrument*</th>
<th>Previous Rated Amount (Rs. crore)</th>
<th>Current Rated Amount (Rs. crore)</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer Rating</td>
<td>Nil</td>
<td>Nil</td>
<td>[ICRA]A+ (Negative); reaffirmed</td>
</tr>
</tbody>
</table>

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating takes into account Humboldt Wedag India Private Limited (HWIPL’s) strong market position as cement plant equipment supplier and 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. The rating also factors in HWIPL’s long track record of operations in the domestic cement industry, its reputed client profile which includes leading cement manufacturers in India, and established relationships with its clients. ICRA also continues to factor in HWIPL’s strong liquidity position as evidenced by sizeable free cash and bank balances of around Rs. 243 crore as on March 31, 2020 (as per provisional financials), and conservative capital structure as reflected in its zero-debt position. Notwithstanding the moderation in sales and limited growth in operating profits, income from the sizeable free cash and bank balances have led to healthy net profit for FY2020. The funding position of the company is further supported by mobilisation advances from the customers.

The negative outlook continues to reflect the weak demand expectations given the over-capacity in the domestic cement industry and HWIPL’s moderate order-book position as on June 30, 2020 indicating limited revenue visibility in the near term. Further, deferment of capex plans by leading cement manufacturers in the backdrop of the pandemic (COVID-19) would also impact the new order-intake and thereby the revenue of the company for FY2020.

The rating remains constrained by limited growth in operating profits owing to high warranty provisions and moderate order-book position as on June 30, 2020 (translating into order-book/revenue of 1.5x). The weak outlook in the cement industry, along with intense competition, can constrain the new order-intake for HWIPL. In addition, the rating continues to factor in the vulnerability of operating profitability to adverse movements in raw material prices, given the fixed price nature of the contracts. The company’s dependence on third-party manufacturers also exposes it to the risks of timely completion of orders with desired quality parameters and further constrain the rating. Moreover, ICRA notes the weak financial performance of the parent entity, KHD Humboldt Wedag International AG (KHD), which has been incurring losses over the last few years. The company has indicated that there will be no upstreaming of funds to the parent entity and there have been no such instances in the past.

Going forward, improvement in operating profitability, steady inflow of orders and timely execution of projects will be the key rating sensitivities.

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’s 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, as evident from the continuous sharing of technical know-how by the parent entity.

**Strong liquidity position with zero-debt and availability of sizeable free cash and bank balances** – With absence of external debt, and limited capex plans, HWIPL enjoys strong financial flexibility. These factors coupled with availability of sizeable free cash and bank balances of around Rs. 243 crore as on March 31, 2020 (as per provisional financials), have translated into strong liquidity position for the company.

**Credit challenges**

**Moderate Order Book indicating limited revenue visibility** – HWIPL’s order-book position is constrained by the slowdown in the domestic cement industry coupled with deferment of capacity expansion plans by the leading cement manufacturers in the backdrop of the pandemic (COVID-19).

**Intense competition exerts pressure on operating profitability** – HWIPL faces stiff competition in the Indian cement equipment market, which is dominated by subsidiaries of foreign cement equipment suppliers.

**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 with vendors within couple of months of receiving the orders from the customers helps in mitigating the risk of increase in raw material prices to some extent. Moreover, the Company enters into a back-to-back supply arrangement with its vendors and sub-vendors to mitigate the risk of increase in raw material prices.

**Weak financial performance of the parent entity** - The financial performance of the parent entity, KHD, has remained weak due to continued losses over the last few years. However, the sizeable free cash and bank balances mitigates the liquidity pressure to some extent. Further, there have been no instances of upstreaming of funds from HWIPL to the parent entity in the past.

**Liquidity position: Strong**

HWIPL has a strong liquidity position with availability of sizeable free cash and bank balances of around Rs. 243 crore as on March 31, 2020 along with zero-debt position and limited capex plans. Notwithstanding the expected contraction in revenue, operating profits and cash accruals, focus on collections from customers and stable working capital cycle would allow the Company to maintain robust liquidity.

**Rating sensitivities**

**Positive Triggers** – The outlook may be revised to stable if there is an improvement in the orderbook position leading to consistent improvement in operating income along with profitability in addition to moderation in working capital intensity.

**Negative Triggers** – Deterioration in order intake or stalling of existing orders resulting in consistent decline in operating income and margins, or deterioration in the working capital metrics might lead to a rating downgrade. Any upstreaming of funds to the parent which impact the liquidity position of the company can also trigger negative rating action.
Analytical approach

<table>
<thead>
<tr>
<th>Analytical Approach</th>
<th>Comments</th>
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</thead>
<tbody>
<tr>
<td>Applicable Rating Methodologies</td>
<td>Corporate Credit Rating Methodology</td>
</tr>
<tr>
<td>Parent/Group Support</td>
<td>Operational support from being part of the KHD Group, which is ultimately held by AVIC Group</td>
</tr>
<tr>
<td>Consolidation / Standalone</td>
<td>Standalone</td>
</tr>
</tbody>
</table>

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 and maintenance and repair services for cement plants.

KHD Group is one of the world’s 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.

KHD Group, in turn, is indirectly held by AVIC International Beijing Co. Ltd. (a subsidiary of Aviation Industry Corporation of China, a corporate group owned by the People’s Republic of China). KHD’s customer base comprises some of the world’s leading Cement Manufacturers. While KHD Group caters to the European, Middle Eastern and African as well as Asia-Pacific markets, the other regions—Russia/CIS, India, China and the Americas are serviced by its subsidiaries through local presence.

Key financial indicators (audited)

<table>
<thead>
<tr>
<th></th>
<th>FY2019</th>
<th>FY2020*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income (Rs. crore)</td>
<td>591.7</td>
<td>483.5</td>
</tr>
<tr>
<td>PAT (Rs. crore)</td>
<td>29.5</td>
<td>32.1</td>
</tr>
<tr>
<td>OPBDIT/OI (%)</td>
<td>4.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>PAT/OI (%)</td>
<td>5.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Total Outside Liabilities/Tangible Net Worth (times)</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Total Debt/OPBDIT (times)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Interest Coverage (times)</td>
<td>11.6</td>
<td>26.0</td>
</tr>
</tbody>
</table>

Source: HWIPL
*As per Provisional Financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None
### Rating history for past three years

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Type</th>
<th>Amount Rated (Rs. crore)</th>
<th>Amount Outstanding (Rs. crore)</th>
<th>Current Rating</th>
<th>Date &amp; Rating in FY2020</th>
<th>Date &amp; Rating in FY2019</th>
<th>Date &amp; Rating in FY2018</th>
</tr>
</thead>
</table>

**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](http://www.icra.in).
Annexure-1: Instrument Details

<table>
<thead>
<tr>
<th>ISIN No</th>
<th>Instrument Name</th>
<th>Date of Issuance / Sanction</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Amount Rated (Rs. crore)</th>
<th>Current Rating and Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>Issuer rating on long-term scale</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>Nil</td>
<td>[ICRA]A+ (Negative)</td>
</tr>
</tbody>
</table>

Source: Humboldt Wedag India Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not Applicable
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