The Indian Hume Pipe Company Limited

October 05, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	777.50 (Reduced from 854.50)	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Reaffirmed; Outlook revised from Stable**
Long Term / Short Term Bank Facilities	1,150.00 (Enhanced from 1,073.00)	**CARE A-; Negative / CARE A2 (Single A Minus; Outlook: Negative/ A Two)**	**Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**
Short Term Bank Facilities	60.00	**CARE A2 (A Two)**	**Revised from CARE A2+ (A Two Plus)**
Total Bank Facilities	**1,987.50 (Rs. One Thousand Nine Hundred Eighty-Seven Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the long term rating continues to derive strength from the long operational track record of the company in the water and irrigation infrastructure segment, vast experience of the promoters in the construction industry, demonstrated track record of project execution, healthy and geographically diversified order book position providing revenue visibility in the medium term and moderate capital structure.

The ratings strengths are tempered by high working capital intensive nature of operations, extended collection days and presence in highly fragmented and competitive industry. CARE notes that the revenue and profit level has been impacted in FY21 (FY refers to period April 01 to March 31) which is attributable to the impact of the COVID-19 pandemic and slowdown in execution during H1FY21. The execution picked up significantly during H2FY21 with improvement in labour availability and supply chain dynamics. The performance during Q1FY22 has been better on a y-o-y basis although margins have been impacted due to rising commodity prices. While execution has picked up, the debtors position has not witnessed traction resulting in increased pressure on working capital position and higher interest cost impacting the overall profit. In light of the above circumstances, CARE has revised the short-term rating downward and also the outlook on ratings to negative. CARE believes that the issues pertaining to realization of receivables are likely to persist in medium term and can have an impact on the financial metrics and liquidity position of the company. Any improvement in the said position may lead to revision in the outlook to stable.

Rating Sensitivities

Positive factors-Factors that could lead to positive rating action/upgrade:

- Growth in scale of operation with improvement in profit level and margins
- Improvement in collection days to less than 250 days on a sustained basis
- Improvement in debt coverage metrics with TD/GCA improving to 6x or below

Negative factors-Factors that could lead to negative rating action/downgrade:

- Elongation in overall collection period beyond 300 days on continued basis
- Weakening of overall gearing ratio to 2.0x and above on sustained basis

Key Rating Strengths

Established track record with demonstrated project execution capabilities

IHP has over nine decades of experience in the Engineering, procurement, construction (EPC) business in India. Over the years, IHP has been able to establish its position as one of the major players providing EPC services in water supply, irrigation and sewerage-related projects. The company has an extensive track record in execution of these projects in different parts of the country with presence in 12 States.

The company has been promoted by Mr. Rajas R. Doshi and the promoters are well supported by other Directors and professional management.

Healthy, growing and diversified order book

IHP has a strong order book position of around Rs. 4,652 crore as on July 31, 2021 executable over a period of 24–30 months. Despite slowdown in the sector, the company has been able to maintain healthy order position with work orders approx.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Rs.1000 crore added over the last one year. The work orders are spread across 12 states in the country with majority of orders from States of Uttar Pradesh, Karnataka, Tamil Nadu, Andhra Pradesh and Maharashtra.
The strong order book position provides revenue visibility over the near to medium term (3.7x times FY21 total operating income) A large proportion of the orders have price escalation clauses safeguarding the company to a great extent against any severe raw material price fluctuations.

Moderate capital structure

The company has a long presence in the industry which has resulted in a moderate networth position and hence despite rising debt level, the capital structure has remained at satisfactory level. However, given the lower profit level, the other debt coverage metrics have remained subdued. The total debt to GCA of the company deteriorated from 8.77x during FY20 to 11.70x during FY21 on account of decline in GCA levels (Rs.66.60 crore during FY21 as against Rs.93.63 crore during FY20). The other debt coverage indicator, PBILDT interest coverage ratio of the company, remained comfortable, although declined from 2.54x during FY20 to 1.71x during FY21 on account of lower PBILDT levels during the year.

Key Rating Weaknesses

Subdued financial performance during FY21 with impact of covid

The construction industry was impacted in FY21 due to execution slowdown with lockdown on account of covid pandemic, migration of labour resulting in labour availability issues and supply chain restrictions. In line with same, the financial performance of the company was also impacted severely during H1FY21 wherein revenue dropped by ~40% on a y-o-y basis. The execution picked up in H2 with improvement in the overall scenario and the revenue degrowth during H2FY21 was marginal at ~4%. Cumulatively, the overall revenue declined by 23% which trickled down to the profit level and margins also.
Backed by a comfortable order book position and better preparedness during second wave of covid, the performance during Q1FY22 has been better vis-à-vis last year. The company registered revenue growth of ~33% during the quarter and reported profit vis-à-vis loss last year. However, the rising commodity prices and time lag in passing on same resulted in lower operating margin to 8% during the year (against average margin of 10-11%).

Elongated operating cycle as a result of higher receivables

The company operates in a working capital intensive industry and there has been extension of receivable days due to milestone-based payment terms as well as retention money being built up. The collection days has been witnessing continuous increase over the past three years and significant drop in revenue has resulted in further elongation of average debtor days during FY21 (from 359 days in FY19 to 419 days in FY21). This in turn has pressurized the working capital position with the average working capital utilization high at 89%. The ability of the company to optimize the collection with subsequent reduction in debt levels is important from credit perspective.

Presence in fragmented industry with high level of competition:

IHP operates in the EPC industry which is highly competitive in nature. EPC industry in India is heavily dependent on order inflow from the government agencies. With the government's push towards increased spending on infrastructure, the prospects of the company seems to better as players with diverse presence across various states are expected to benefit from the same. However, the operating profit margins of the players in the industry have remained moderate due to fragmented nature of industry with presence of large number of players in the market. Players with superior execution capabilities and financial flexibilities are better placed to overcome the competition in the market.

Liquidity: Adequate

The liquidity position of the company although weakened from previous level has remained at an adequate level due to lower scheduled debt repayment obligation vis-à-vis the cash accruals. The company has reduced the scheduled obligation with payment of Rs.110 crore of working capital demand loan during FY21. However, continued stretch in the gross current asset days may impact the liquidity reducing the headroom available for managing any unforeseen requirement as the average utilization of fund based limits for the past 12 months ending July 31, 2021 stood at ~89%.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios - Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology-Construction Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Incorporated in July 1926, The Indian Hume Pipe Company Ltd. (IHP) is engaged in providing Engineering, Procurement, Construction and Commissioning services in water supply, irrigation and sewerage related projects. With more than 9 decades of experience, the company is considered a pioneer in the field of water supply industry. The company has presence in almost all water supply related activities, viz. Urban & Rural Water Supply, Penstock for Hydro Power Generation, Tunnel Lining, Large diameter Irrigation pipelines, Head Works including pumping machinery, Treatment Plants, Overhead Tanks and other allied Civil Construction. Over a period, IHP has evolved from contract manufacturer of pipes to executing EPC contracts in water supply contracts as well. The company majorly deals with government projects floated by various State and Central Government agencies. With increased focus in EPC contract business, the pipe manufacturing segment contributes less than 10% to the total revenue of the company.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1627.98	1245.74
PBILDT	194.70	129.66
PAT	73.41	42.00
Overall gearing (times)	1.45	1.29
Interest coverage (times)	2.54	1.71

A- Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of rated instruments/facilities is given in Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	May 2025	690.00	CARE A-; Negative
Non-fund-based-Short Term	-	-	-	-	60.00	CARE A2
Fund-based - LT-Term Loan	-	-	-	-	87.50	CARE A-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1150.00	CARE A-; Negative / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Long Term	LT	690.00	CARE A-; Negative	-	1)CARE A-; Stable (05-Oct-20)	1)CARE A; Stable (05-Jul-19)	1)CARE A+; Stable (04-Oct-18)
2	Non-fund-based-Short Term	ST	60.00	CARE A2	-	1)CARE A2+ (05-Oct-20)	1)CARE A1 (05-Jul-19)	1)CARE A1+ (04-Oct-18)
3	Fund-based - LT-Term Loan	LT	87.50	CARE A-; Negative	-	1)CARE A-; Stable (05-Oct-20)	1)CARE A; Stable (05-Jul-19)	1)CARE A+; Stable (04-Oct-18)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1150.00	CARE A-; Negative / CARE A2	-	1)CARE A-; Stable / CARE A2+ (05-Oct-20)	1)CARE A; Stable / CARE A1 (05-Jul-19)	1)CARE A+; Stable / CARE A1+ (04-Oct-18)

* Long Term / Short Term

Annexure 3- Detailed explanation of covenants of the rated facilities: NA

Annexure 4- Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-Long Term	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based-Short Term	Simple

Annexure 5: Bank Lender Details for this Company
Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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