ITD Cementation India Limited

February 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,502.30 (Enhanced from 1,261.32)	CARE A; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	6,918.96 (Enhanced from 6,638.96)	CARE A; Stable / CARE A1	Reaffirmed
Commercial Paper (Carved out)*	200.00	CARE A1	Reaffirmed

*Carved out of working capital limits

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in ratings assigned to bank facilities and short-term instruments of ITD Cementation India Limited (ITD India) continue to derive strength from the established track record in the Engineering, Procurement and Construction business in the country, extensive experience of promoters, satisfactory project execution capabilities with complex EPC work undertaken and comfortable liquidity profile. The ratings also factor in robust growth in order book position resulting in strengthened revenue visibility in medium term and healthy growth in scale of operations during FY22 (refers to the period April 1 to March 31) and H1FY23 post Covid-19 disruptions.

The rating strengths, are however, tempered by relatively moderate profit margins with operations exposed to variability in commodity prices, significant work order at nascent stage with more than 50% of order in hand received recently and hence at initial stages, and expected moderation in the leverage and coverage metrics due to addition of debt for large sized projects undertaken in metro and roads. While the debt levels are expected to elevate by end of fiscal 2023, the coverage metrics are likely to improve from FY24 onwards as significant portion of revenue from large projects is expected to be booked from FY24. Hence, timely execution of the said project work with generation of the envisaged operating cash flows thereby enabling the company to improve its leverage shall be important from credit perspective. Ratings are continued to be constrained by working capital intensive operations and inherent challenges associated with construction sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scaling up of execution in projects secured in metro, transmission and roads segment leading to improvement in the adjusted debt/PBILDT to around 3-3.25 times on sustained basis

Negative factors

- Any significant addition to debt resulting in weakening of leverage position
- Increase in gross current asset days to more than 300 days on a sustained basis
- Delay in progress of various projects leading to lower than envisaged revenue and adjusted total debt/PBILDT exceeding 4.50 times on a sustained basis

Analytical approach: Consolidated

CARE Ratings has adopted the consolidated approach for analysing ITD India. The list of subsidiaries and JV consolidated is attached as Annexure 6.

Key strengths

Established presence in the EPC business

ITD India was established in 1978 and has presence of over four decades in the EPC segment in the country. The company has established a strong position in construction industry in India with a proven track record. It has successfully executed large and complex array of projects which includes elevated and underground metro projects, large commercial and institutional buildings, pumping stations, irrigation, marine infra works etc across the country. The company also benefits from the support extended by the parent company Italian Thai Development Public Company Limited (ITD Thailand) in project execution and access to various technologies and other technical know-how. The parent also deploys skilled personnel wherever necessary and has representation on company's board/management.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Robust growth in order book

ITD India has been able to successfully add orders on a regular basis which has resulted in a robust growth in order book position. It has witnessed strong inflow of orders over the last 2 years and has added orders of ₹7,770 crore in FY22 and ₹7160 crore in H1FY23 leading to order book of ₹21,713 crore as on September 30, 2022. The order book translates to 5.09x of the FY22 revenue providing healthy revenue visibility over medium term. The order book is well spread across diverse segments comprising urban infrastructure (including metro rail) 32%, Highway/Bridges/Flyovers (23%), marine structures (20%), buildings (10%), Tunnels/Dams/Irrigation (8%), etc. Order book is diversified with presence across 15 states with Tamil Nadu capturing major share of 24% followed by UP (23%), Karnataka (15%) etc.

The significant jump in order book is due to addition of 2 large sized orders of Chennai metro project (worth ₹3950 crore) in Q4FY22 and Ganga Expressway Project (₹4850 crore, which has been received from Adani Road Transport Ltd.) in H1FY23. The above-mentioned work orders comprise almost 50% of the order book. Furthermore, order from Adani group has finance closure in place which mitigates the counterparty risk to an extent.

However, orders comprising ~50% of order book are at very early stages of execution (<5%) on account of significant inflows of order in Q4FY22 and H1FY23. Any delay in availability of Right of Way (ROW), release of funds from counterparty or design approval can adversely impact the progress of the projects and there by revenue generating capability of the company. Meaningful revenue recognition from these projects will be start from Q1FY24 as articulated by management. Furthermore, metro projects are associated to inherent geotechnical risk.

Given the established track record of the company in executing complex infrastructure projects which require strong technical expertise, project execution risk has been subsided to an extent.

Strong financial performance during FY22 and H1FY23

During FY22, ITD on consolidated level has reported strong growth in its Total Operating Income to ₹3,809 crore as compared to ₹2718 crore reported during FY21 registering a growth of above 40%, on account of ramping up of work execution post minimization of pandemic related challenges. Backed by strong order book and steady execution, the revenue growth continued during H1FY23 with y-o-y growth of 30%. It reported strong cashflow from operations of ₹339 crore during FY22 as against ₹191 crore in FY21.

Liquidity: Adequate

Liquidity profile of the company is adequate marked by healthy cash accruals along with unencumbered cash balance of ₹224 crore as on September 30, 2022. Working capital utilization continued to remain moderate at 75%-80% for trailing 12-month period ending October 2022. Apart from these, company has tied up project specific limits for Chennai Metro Rail Project and is planning to tied up for Ganga Expressway project which provides sufficient cushion to meet the incremental working capital needs.

Key weaknesses

Moderate profit margin with susceptible to fluctuation of commodity prices

PBILDT margin continued to be remained moderate at 7.93% in FY22 (FY21: 7.95%) due to impact of rise in commodity prices and losses in Bangalore metro rail project. While there are price escalation clauses in approx. 80% of the order book, there is time lag and cost overruns which ultimately drags down the overall PBILDT margins. Further, the entire commodity price rise cannot be passed on due to linkages of escalation with price index and different terms of individual contracts. There has been an impact of commodity price rise during last 1.5 years with reduction in PBILDT margin in FY22 by around 258 bps to 7.93% over FY20 level.

With easing of commodity prices, the margins slightly improved to 8.31% during H1FY23. CARE Ratings Ltd (CARE Ratings) expects the margins to improve going forward with completion of legacy project booking and easing of commodity price pressure.

Expected moderation in leverage and debt coverage metrics

Historically, the debt level for the entity has been on the relatively lower side with satisfactory operating cycle necessitating lower dependence on working capital borrowings. However, with large sized projects undertaken, the term debt (for funding equipment purchase), mobilisation advance and working capital requirement has gone up which is expected to moderate the capital structure by end of fiscal FY23. A large part of the working capital funding is met through interest free mobilization advance which supports the interest coverage.

Inventory build up and high working capital requirement is expected during initial stage of project execution for the newly added metro project and road project works. Revenue and profit booking from such projects is expected to accrue from FY24 and hence the debt coverage metrics are expected to weaken in the interim period. Total adjusted debt (including interest linked mobilization advances)/PBILDT as per CARE standards is likely to remain near 4x in near term. However, on adjusting share of Joint Venture, the adjusted debt/PBILDT will be near to 3.5x. Nevertheless, adjusted debt/PBILDT is estimated to improve from FY24 with commensurate revenue from metro and roads projects and completion of Bangalore metro project. Going forward, meaningful improvement in the debt/PBILDT through scaling up of operations and managing working capital requirements shall be crucial.

Working capital intensive operations
ITD India specializes in execution of technically complex projects and the work orders have high component of unbilled revenue due to large sized orders in initial phase of execution and longer gestation projects. However, the gross current asset days have witnessed improvement during FY22 to 213 days as compared to 275 days in FY21. The same is expected to extend during FY23 on account of increase in unbilled revenue pertaining to large sized work orders under execution. The strong net worth base however enabled the company to manage the liquidity profile. The working capital has also been managed through extension of creditors. Hence overall operating cycle has remained comfortable at 87 days during FY22 (FY21: 123 days).

Inherent challenges associated with construction sector
ITD India operates in the intensely competitive construction industry wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The high competition in the infrastructure industry is due to the presence of large number of small and medium players. However, ITD India has rich experience in niche segment of complex infrastructure projects, long standing track record in the construction industry and established clientele which fares well against the peers in the industry.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Infrastructure Sector Ratings
Policy on Withdrawal of Ratings

About the company

ITD Cementation India Limited (ITD India) was incorporated on June 24,1978 as CemIndia Company Limited. The name of the company was changed to current nomenclature in 2004 post acquisition of 80.3% stake in the company by Italian-Thai Development Public Company Limited (ITD Thailand). ITD India is engaged in engineering and civil construction work with focus on maritime structures, urban infrastructure projects/mass rapid transit systems (MRTS), buildings, airports and tunnels.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	2,718	3,809	2,132
PBILDT	216	302	177
PAT	16	69	50
Overall gearing (times)	1.04	1.14	NA
Interest coverage (times)	1.56	2.13	2.40

A: Audited; UA: Unaudited; NA; Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)	-	-	-	7 – 364 days	200.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	-	1069.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	-	June 2027	433.30	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	6918.96	CARE A; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Carved out)	ST	200.00	CARE A1	-	1)CARE A1 (01-Dec-21)	1)CARE A1 (06-Oct-20)	1)CARE A1 (04-Mar-20) 2)CARE A1 (CW with Developing Implications) (03-Oct-19) 3)CARE A1 (05-Jul-19)
2	Fund-based - LT-Cash Credit	LT	1069.00	CARE A; Stable	1)CARE A; Stable (06-Apr-22)	1)CARE A; Stable (01-Dec-21)	1)CARE A; Stable (06-Oct-20)	1)CARE A; Stable (04-Mar-20) 2)CARE A (CW with Developing Implications) (03-Oct-19) 3)CARE A; Stable (05-Jul-19)
3	Fund-based - LT-Term Loan	LT	433.30	CARE A; Stable	1)CARE A; Stable (06-Apr-22)	1)CARE A; Stable (01-Dec-21)	1)CARE A; Stable (06-Oct-20)	1)CARE A; Stable (04-Mar-20) 2)CARE A (CW with Developing Implications) (03-Oct-19) 3)CARE A; Stable (05-Jul-19)
4	Non-fund-based -	LT/ST*	6918.96	CARE A;	1)CARE A;	1)CARE A;	1)CARE A;	1)CARE A;

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
	LT/ ST-BG/LC			Stable / CARE A1	Stable / CARE A1 (06-Apr-22)	Stable / CARE A1 (01-Dec-21)	Stable / CARE A1 (06-Oct-20)	Stable / CARE A1 (04-Mar-20) 2)CARE A / CARE A1 (CW with Developing Implications) (03-Oct-19) 3)CARE A; Stable / CARE A1 (05-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure 6: List of entities considered for consolidation:

Name of Subsidiary/JV	Shareholding
ITD Cementation Projects India Limited.	100%
ITD Cem-Maytas Consortium	95%
ITD Cemindia JV	80%
CEC-ITD Cem-TPL	60%
ITD Cem-BBJ JV	51%
ITD-ITD CEM JV	49%
ITD-ITD CEM JV (Consortium ITD-ITD Cementation)	40%

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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