The Indian Hume Pipe Company Limited
November 21, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	810.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Negative (Single A Minus; Outlook: Negative)
Long Term / Short Term Bank Facilities	1,150.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Revised from CARE A-; Negative / CARE A2 (Single A Minus; Outlook: Negative / A Two)
Short Term Bank Facilities	10.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**1,970.00 (₹ One Thousand Nine Hundred Seventy Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the rating assigned to the long-term bank facilities factor in the sustained delay in rationalization of stretched current assets levels due to slowdown in project execution, lower order addition as well as delayed realization of some of the stuck debtors as against earlier timelines and delayed realization of GST receivables thereby impacting the overall liquidity profile. The receivable days though improved FY21 level continue to remain elevated (above 300 days), necessitating higher dependence on working capital borrowings and resultantly impacting the leverage and coverage metrics. Further, the financial performance has witnessed moderation in H1FY23 (refers to period April 01 to March 31) with degrowth in revenue and PBILDT by about 4% and 14% respectively on a y-o-y basis. The extended monsoon and non-achievement of milestone linked contractual terms have impacted the project execution, revenue and profitability during the half year ended FY23. The company expects recovery of stuck debtors from few pending projects in H2FY23 aggregating Rs.300 crore which might ease the liquidity pressure. Any deviation from the recovery plans by March 2023 along with continued slowdown in work execution leading to higher working capital borrowings shall be key rating sensitivity. The ratings, however, take cognizance of resourcefulness of promoters and their articulation of providing need-based support through unsecured loans. It also factors in land development plans of the promoters to support IHPL.

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

Rating sensitivities

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

- Significant growth in scale of operation with improvement in profit level and margins.
- Improvement in collection days to less than 275 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:

- Weakening of overall gearing ratio to 2.0x and above on sustained basis.
- Significant deviation in realization of stuck debtors and/or non-receipt of need-based support from promoters leading to higher utilization of working capital limits on sustained basis.

Detailed description of the key rating drivers

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

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

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.

Satisfactory and geographically diversified order book
IHP has an order book position of around Rs.4,655 crore as on August 31, 2022 (4,652 crore as on July 31, 2021) which at a gross billing level for FY22 provides revenue visibility for the next three years. Majority of the orders are to be executed over a period of 24–30 months, thereby, providing medium term revenue visibility (3.06x times FY22 total operating income). The company has long presence in the water supply and related segment and hence about 87% of orders are towards domestic water supply while remaining 13% is towards irrigation. The orders under Har Ghar Jal Scheme of Central Government constitute about 26% (~Rs.1,210 crore) to the total order book of the company (for the States of UP, MP and Maharashtra).
The order book is geographically well diversified across 12 states in the country with majority of orders from states of Madhya Pradesh, Uttar Pradesh, Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh and Tamil Nadu. The order book is majorly from government entities with share of central to State close to 40:60.

Satisfactory financial performance during FY22 and expected improvement in H2FY23 post moderation in H1
The total operating income of the company improved from Rs.1,241 crore during FY21 to Rs.1,520 crore during FY22 (y-o-y growth of ~22%) post slowdown due to covid related issues. The PBILDT margin of the company remained stable at 10.32% during FY22 (10.1% in FY21). The PAT margin of the company, however, improved by 42bps primarily on account reduction in interest rates (~100bps) during the year. While the performance of the company improved during FY22, it is yet to reach pre-covid level performance.
The financial performance of the company has been subdued during H1FY23 on account of delay in execution due to extended monsoons. The same has resulted in decline in revenue to Rs.684 crore during H1FY23 vis-à-vis Rs.707 crore during the same period in FY22. The PBILDT margin stood lower at 8.15% during H1FY23 as against 9.12% during H1FY22 and 10.32% during FY22, on account of slower project execution and higher fixed expenses during the period. During Q1FY23, the company had received non-operating income in form of additional compensation of Rs.14.64 crore from NHAI towards land acquired as part of Yelhanka-Bengaluru Highway. The same supported the PAT level during H1FY23.
The performance of the company is expected to improve during H2FY23 as has been the trend in the past.

Stable industry Outlook:
IHPL operates in water pipeline segment where government spending has been increasing over the years. Jal Jeevan Mission (JJM) announced by Government of India aims to provide tap water supply to every rural home by 2024. In 2019, only 3.23 crore (17%) had tap water connections. Thus, the objective was to provide nearly 16 crore additional households tap water by 2024. Jal Jeevan Mission has already reached a milestone of providing about 10.32 crore (54%) rural households (as on October 10, 2022) with tap water connections in their homes. There is huge scope for additional water supply works under the scheme in the states of Uttar Pradesh (no. of households with tap connection: 19% as on October 17, 2022), Jharkhand (24%), Rajasthan (28%), Chhattisgarh (31%) and West Bengal (31%).
To achieve the mammoth task of providing tap water supply to every rural household in a span of five years, Rs.3.60 lakh crore has been allocated. Rs.60,000 crore has been allocated to 'Har Ghar Jal' in Union Budget 2022-23 to provide tap water to 3.80 crore households. In addition to above, in 2021-22, Rs 26,940 crore has been allocated to States as 15th Finance Commission tied grant for water & sanitation to Rural Local Bodies/ PRIs. There is an assured funding of Rs.1,42,084 Crore for the next five years i.e., up to 2025-26. Entities engaged in the water pipeline segment are expected to get benefitted from the JJM scheme.

Key Rating Weaknesses
Heightened working capital intensity impacting the cashflow position and coverage metrics
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, although improved during FY22, continue to remain on higher side as against expected improvement in collection period to less than 300 days. Further, due to lower turnover during H1FY23 and stuck debtors on account of challenges in state finances, the collection period continued to remain elevated in the current fiscal. During the said period, the company could not bill few of its completed works as it could not achieve certain milestones due to extended monsoons. The elongation in receivable on one hand and slower project execution on the other has in turn has pressurized the working capital position resulting in high dependence on bank borrowings. The average working capital utilization has been high at 92% for the past 12 months ended August 2022 with reliance on adhoc limits. The company proposes to enhance limits to Rs.760 crore to support the liquidity. The leverage and coverage metrics continue to remain moderated with Total Outside Liabilities (TOL)/Tangible Networth (TNW) at 2.12x in FY22 and Total debt/Gross Cash Accruals significantly high at 10.13x.

The company expects recovery of close to Rs.125-150 crore of old pending receivable from Kalburgi and Kashtugi projects in near term. Further, commissioning of various projects which were delayed due to covid related issues might result in realization of receivables of Rs.160 crore. Realization of said funds along with need-based support from promoters and funds from land development might enable the company to optimize debt levels and the same is important from credit perspective.

Delay in execution of order book and lower order addition during FY22

The order book comprises various projects under execution for the past three years wherein significant work is yet to be completed and company has been receiving Extension of Time (EOT) for slower progress. Covid induced challenges as well as changes in the project designs, approvals, extended monsoon etc which are beyond the control of the company along with challenges in the state finances have contributed to the slower work execution. With focus on completion of existing orders, relatively lower order addition has happened over last 2 years. IHPL added orders of Rs.794 crore during FY22 which remained relatively lower vis-à-vis Rs.1025 crore during FY21 and Rs.1720 crore in FY20. The order book comprises ~25% of new orders at higher input prices. With several work orders at old input prices and large composition of the work order from State Government, the ability to pass on the input price risk is restricted/time consuming despite presence of escalation clauses in contracts.

Presence in fragmented industry with high level of competition:

IHPL 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 has been adequate supported by low term debt obligations and hence fixed repayment obligations. However, the extended operating cycle/GCA days have necessitated high reliance on working capital borrowings. The company avails interest free mobilization advance to support its working capital requirement and fund based limit utilization has been close to 90%. The liquidity position of the company is expected to improve going forward with the expected realization of debtors to the tune of ~Rs.300 crore and need based supported promoters in the form of unsecured loans as articulated by the management.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating methodology – Construction sector
Criteria for Short Term Instruments
Financial Ratios - Non-Financial Sector
Liquidity Analysis-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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (U/A)
Total operating income	1,241	1,520	684
PBILDT	125	157	56
PAT	42	58	27
Overall gearing (times)	1.24	1.16	NA
Interest coverage (times)	1.66	2.37	1.82

A: Audited; 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 covenants of the rated instruments/facilities is given in Annexure-3

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

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
Fund-based - LT-Term Loan	-	-	-	May 2025	50.00	CARE BBB+; Stable
Fund-based-Long Term	-	-	-	-	760.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1150.00	CARE BBB+; Stable / CARE A2
Non-fund-based-Short Term	-	-	-	-	10.00	CARE A2

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	Fund-based-Long Term	LT	760.00	CARE BBB+; Stable	-	1)CARE A-; Negative (05-Oct-21)	1)CARE A-; Stable (05-Oct-20)	1)CARE A; Stable (05-Jul-19)
2	Non-fund-based-Short Term	ST	10.00	CARE A2	-	1)CARE A2 (05-Oct-21)	1)CARE A2+ (05-Oct-20)	1)CARE A1 (05-Jul-19)
3	Fund-based - LT-Term Loan	LT	50.00	CARE BBB+; Stable	-	1)CARE A-; Negative (05-Oct-21)	1)CARE A-; Stable (05-Oct-20)	1)CARE A; Stable (05-Jul-19)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1150.00	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Negative / CARE A2 (05-Oct-21)	1)CARE A-; Stable / CARE A2+ (05-Oct-20)	1)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 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

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

Note on 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:
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