

ITD Cementation India Limited

March 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	900.00	CARE A; Stable (Single A; Outlook: Stable)	Removed from 'Credit watch with developing implications' and 'Stable' outlook reinstated to long term ratings
Short-term Bank Facilities	4,000.00	CARE A; Stable /CARE A1 (Single A; Outlook: Stable /A One)	Removed from 'Credit watch with developing implications' and 'Stable' outlook reinstated to long term ratings
Total Facilities	4,900.00 (Rs. Four thousand nine hundred crore only)		
Commercial Paper (CP)*	200.00 (Rs. Two hundred crore only)	CARE A1 [A One]	Removed from 'Credit watch with developing implications'

*Carved out of the sanctioned working capital limits of the company
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the ratings from 'credit watch with developing implications' on account of clarity received that the company has received permission from Calcutta High Court to restart the underground construction of East-West Metro Corridor of Kolkata Metro Rail Corporation Limited which is undertaken by ITD-ITD Cem Joint Venture (JV). As on December 31, 2019 out of the total contract value for this project of Rs. 1,770.35 crore, Rs.484.52 crore is pending which is estimated to be completed by December 2021 as compared to original completion schedule of May 2020. The company is in the process of applying for extension of the timeline for the same. Further, as per the estimates, the company is expected to incur around Rs.90-100 crore towards construction of shaft, providing temporary alternate accommodation, demolition and then reconstruction of affected buildings etc. The same is expected to be incurred out of contingency reserves available in the JV (ITD-ITD Cementation JV) for the project. The JV has cash and bank balance of Rs.269 crore as on December 31, 2019. Thus, although the incident is expected to result in extension in the project completion timelines by few months, the same may not have any material adverse impact on the credit profile of the company.

The ratings assigned to the bank facilities and short term instrument of ITD Cementation India Limited (ITD India) continue to derive strength from the long track record and extensive experience of the promoters/management in Engineering, Procurement and Construction (EPC) business and strong parentage of Italian Thai Development Public Company Limited (ITD Thailand), a Thailand based entity having a long track record and well established presence in the EPC segment in various countries thereby providing consistent support in terms of technical know-how. The ratings also favorably factor in growth in revenues coupled with moderate profit margins amidst prevailing competition, comfortable capital structure/debt coverage indicators along with healthy liquidity position and revenue visibility emanating on the back of robust order book position in the near to medium term.

However, the aforementioned rating strengths are tempered by elongated receivables period largely owing to high unbilled revenue along with slower realization of receivables, high project execution risk given the majority of the order book is in nascent stage and competitive nature of the industry. The ratings continue to be tempered by on-going considerable support extended to loss making Joint Ventures (JV). Any further increase in support to JVs would be a key rating sensitivity.

Rating sensitivities:

Positive Factors:

- Significant increase in scale of operations with net profit margins improving to more than 5%.
- Improvement in operating cycle and faster ramp up in execution of large orders
- Improvement in TOL to TNW ratio below 1x on a sustainable basis.

Negative factors:

- Significant decline in scale of operations or PAT margins of the company to levels below 2%.
- Deterioration in gearing levels or Total debt/PBILDT goes beyond 3.0x times
- Larger than anticipated support to group companies.

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

Detailed description of the key rating drivers

Key Rating Strengths

Long track record, experienced promoters in the EPC business and parental support for technical know-how

ITD India has demonstrated track record in execution of large and complex projects of various types across India, thereby establishing a strong foothold in the domestic construction industry. Furthermore, 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. Additionally, the strong credentials of ITD Thailand and ITD India enable them to enter into joint ventures and partnerships which in turn aids in bidding for large and complex projects.

Order book position continues to be robust

ITD India over the last couple of year has reported a consistently healthy order book position. The order book position of the company further improved to Rs.12,660 crore as on December 31, 2019 as compared to the order book position of around Rs.10,660 crore as on August 31, 2019 (Earlier review). Order book available with the company provides medium term revenue visibility to the company.

Growth in revenues coupled with moderate profit margins

For the 15 month ended FY19 (January 2018 – March-2019); the company reported revenues of Rs.3,178.77 crore (12M CY18: Rs. 2,592.04 crore vis-à-vis 12M CY17: Rs.2,074.60 crore) and PBILDT of Rs.346.39 crore (12M CY18: Rs. 332.94 crore as against 12M CY17: Rs.292.11 crore) implying growth in revenues on a y-o-y basis of ~25%. On back of robust order book, the total operating income continued to grow during 9MFY20 rising by 10.16% on y-o-y basis to Rs.2,124.86 crore. The company has achieved PBILDT margin of 10.90% in 15 month period ended March 31 2019 (12M CY18:12.89% vis-à-vis 12M CY17:14.08%). The moderation in profit margin was owing to lower contribution from the margin accretive marine segment as compared to other segments, the nascent stage of order book execution (as the company books profit post execution to the extent of 10% of the job value) and one-time loss recognized during the last quarter (i.e. Jan-March 2019) emanating from the Bengaluru Metro Project given a ~20% reduction in the overall job value to approximately Rs.2,000 crore (vis-à-vis Rs. 2,370 crore earlier). During 9MFY20, the company's net profit fell by 45.35% on y-o-y basis to Rs.49.22 crore during 9MFY20 as compared to Rs.90.07 crore earned during 9MFY19.

Comfortable capital structure and debt coverage indicators

The company's overall gearing remained comfortable at 0.56 times at the end of March 31, 2019 as compared to 0.89 times at the end of December 31, 2017 (CY17) owing to QIP issue completed in Jan-2018 coupled with repayment of long term debt and moderate working capital utilization. The TOL/TNW also improved to 1.52 times at the end of FY19 from that of 2.81 times at the end of CY17. The interest coverage for FY19 stood stable at 2.79 times vis-à-vis 3.34 times at the end of CY17. Going forward, substantial deterioration in gearing levels is a key rating sensitivity.

The company's overall gearing further improved to 0.45 times (excluding mobilization advances) as on December 31, 2019.

Adequate liquidity position

The company continues to maintain adequate liquidity position as seen from unencumbered cash and bank balances of Rs.95.07 Crore as on December 31, 2019. Additionally, the company has fund based limits of Rs.656.60 with average utilization for the last twelve months ending December 31, 2019 in the range of 60-70% which provides additional liquidity buffer to the company. On the other hand the company's term loan repayments during FY20 were Rs.10.82. Hence, the company had sufficient liquidity to meet its debt obligations.

Analytical approach:

ITD Cementation Projects India Ltd and five joint ventures (i) ITD Cem-Maytas Consortium, (ii) ITD Cemindia JV, (iii) ITD- ITD CEM JV and (iv) ITD-ITD CEM JV (Consortium of ITD-ITD Cementation) v) CEC-ITD Cem-TPL Joint Venture. As most of the projects awarded to the company are executed by these Joint Ventures and subsidiaries, consolidated approach is considered for analysis.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Financial Ratios – Non-Financial Sector](#)

[Rating Methodology - Urban Infrastructure Projects](#)

About the Company

ITD Cementation India Limited (ITD India) established its operations in India in 1931 as a branch of Cementation Company Ltd., UK. On June 24, 1978, the company was incorporated in India as Cemindia Company Limited.

The company is primarily focused in civil engineering, mining, specialized and other engineering activities. In the year 2004, Italian-Thai Development Public Company Limited (ITD Thailand) acquired 80.3% equity stake in the company. Consequent to this acquisition, the company changed its name to ITD Cementation India limited (ITD Thailand currently holds 46.64% stake in ITD India as on March 31, 2019). ITD India's current business operation areas include construction of maritime structures, mass rapid transit systems (MRTS), hydro power plants, tunnels, dams, industrial structures, airports, highways, bridges, flyovers, tube heading and foundation and specialist engineering work. ITD India undertakes projects across India independently; through its wholly owned subsidiary (ITD Cementation Projects India Ltd) and five joint ventures [ITD Cem-Maytas Consortium (95% holding), ITD Cemindia JV (80% holding), ITD- ITDCEM JV (49% holding), ITD-ITD CEM JV-Consortium of ITD-ITD Cementation (40% holding) and CEC-ITD Cem-TPL JV (60% holding)].

Brief Financials (Rs. crore)	CY17(A) (12M)	*FY19(A) (15M)	^9MFY20(UA)
Total operating income	2,074.6	3,178.77	2,124.86
PBILDT	292.11	346.39	215.18
PAT	72.93	83.16	49.22
Overall gearing (times)	0.89	0.56	0.45
Interest coverage (times)	3.34	2.79	2.26

*for 15 months ended Jan 2018-Mar 2019; ^refer to April 01, 2019 to December 31, 2019 period;

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	800.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	December 2022	100.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	4000.00	CARE A; Stable / CARE A1
Commercial Paper	-	-	-	200.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	200.00	CARE A1	1)CARE A1 (Under Credit watch with Developing Implications) (03-Oct-19) 2)CARE A1 (05-Jul-19)	1)CARE A1 (06-Jun-18)	1)CARE A1 (09-Nov-17)	1)CARE A1 (13-Jul-16)
2.	Fund-based - LT-Cash Credit	LT	800.00	CARE A; Stable	1)CARE A (Under Credit watch with Developing Implications) (03-Oct-19) 2)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (06-Jun-18)	1)CARE A-; Positive (09-Nov-17)	1)CARE A- (13-Jul-16)
3.	Fund-based - LT-Term Loan	LT	100.00	CARE A; Stable	1)CARE A (Under Credit watch with Developing Implications) (03-Oct-19) 2)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (06-Jun-18)	1)CARE A-; Positive (09-Nov-17)	1)CARE A- (13-Jul-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4000.00	CARE A; Stable / CARE A1	1)CARE A / CARE A1 (Under Credit watch with Developing Implications) (03-Oct-19) 2)CARE A; Stable / CARE A1 (05-Jul-19)	1)CARE A; Stable / CARE A1 (06-Jun-18)	1)CARE A-; Positive / CARE A1 (09-Nov-17)	1)CARE A- / CARE A1 (13-Jul-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Cash Credit Limit	
A. Financial Covenants	
1. Margin	25% on stocks and debtors not exceeding 6 months
2. Security	<p>Primary – Joint hypothecation charge on the entire stocks, book-debts and other current assets of the company, both present and future, ranking pari-passu with the other consortium member banks.</p> <p>Collateral – Joint hypothecation charge over all movable plant and machinery, present and future, on pari-passu basis with other consortium member banks, excluding certain movable fixed assets (specific items of plant & machinery)</p>
3. Guarantee	Nil
4. Period	1 year
5. Repayment	On Demand
B. Non-financial Covenants	
1. Insurance	Stocks & all fixed assets will be insured at all times for sufficient value with bank clause therein
2. Undertaking	The company will give undertaking stating that they will use the funds for the purpose for which it has been sanctioned for and not for any other purposes that is not permitted.
3. Penal Interest	Any default in complying with terms of sanction within the stipulated time will attract penal interest as per guidelines/policy of the bank.

List of entities considered for consolidation

- i) ITD Cem-Maytas Consortium
- ii) ITD Cemindia JV
- iii) ITD - ITD CEM JV
- iv) ITD - ITD CEM JV (Consortium of ITD-ITD Cementation)
- v) CEC-ITD Cem-TPL Joint Venture

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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