

## ITD Cementation India Limited

July 05, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	900.00	<b>CARE A; Stable</b> (Single A; Outlook: Stable)	<b>Reaffirmed</b>
Short-term Bank Facilities	4,000.00	<b>CARE A; Stable/CARE A1</b> (Single A; Outlook: Stable/A One)	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>4,900.00</b> (Rs. Four thousand nine hundred crore only)		
Commercial Paper (CP)*	200.00 (Rs. Two hundred crore only)	<b>CARE A1</b> [A One]	<b>Reaffirmed</b>

\*Carved out of the sanctioned working capital limits of the company

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of 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 realisation 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.

Ability of the company to improve the profitability margins based on the timely completion of order book, maintain comfortable capital structure, manage working capital requirement efficiently and recover dues from long outstanding receivables are the key rating sensitivities.

### 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.

#### Robust order book position

ITD India over the last couple of year has reported a consistently healthy order book position, at the end of FY19 (March 31, 2019) the order book position stood robust at Rs.9,992.5 crore (3.13x of the consolidated FY19 revenues). Further, post March 31, 2019, the company won additional orders to the tune of Rs.1,112 crore; thereby taking the aggregate orders book

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

position to ~Rs.11000 crore (3.46x of the consolidated FY19 revenues). Additionally, the company has also emerged as L1 in orders worth Rs. 1,336 crore as on May 31, 2019. Thus the orders in hand and the L1 orders provide a healthy revenue visibility over the near to medium term.

However, the order book largely includes MRTS (Mass Rapid Transit Systems) and Marine projects (~74% of the order book); the execution of these projects is in nascent stages. Timely completion of these orders without any cost overrun will be crucial from the credit perspective.

#### **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 12MCY17: Rs.2,074.60 crore) and PBILDT of Rs.346.39 crore (12MCY18: Rs. 332.94 crore as against 12MCY17: Rs.292.11 crore) implying growth in revenues on a y-o-y basis of ~25%. The company has achieved PBILDT margin of 10.90% in 15 month period ended March 31 2019 (12MCY18:12.89% vis-à-vis 12MCY17:14.08%). 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).

#### **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.

#### **Healthy liquidity position**

ITD India reported healthy liquidity at the end of March 31, 2019 marked by unencumbered cash and cash equivalents of Rs.103.96 crore. Furthermore, the company's utilisation of its working capital fund based bank facilities remained moderate at around 56% for the twelve month period ended May 31, 2019 thereby indicating that the company has undrawn sanctioned limits to the extent of 44% to support its operations in case of exigencies (if any).

#### **Key Rating Weaknesses**

##### **Elongated receivables period albeit comfortable operating cycle**

The company's operating cycle for FY19 remained comfortable at 50 days with inventory days standing at 32 days, receivable days of 112 days (including trade receivables, retention money and unbilled revenues) and creditor of 94 days. The operating cycle remained consistent with previous years CY17: 49 days and CY16: 47 days.

The receivable days (including trade receivables, retention money and unbilled revenues) though improved from 147 days in CY17 to 112 days at the end of FY19; the same remained elevated on account of slower realisation of receivables and high unbilled revenues which accounted for nearly 58.05% of the total debtors (including trade receivables, retention money and unbilled revenues).

##### **Project Execution Risk**

While ITD India has a strong orderbook position (incl. L1 position in several projects); the majority of the orderbook remains in the initial stage of execution and thus carry project execution risk, timely completion of the orders without any cost overrun remains crucial from credit perspective. Furthermore, aggressive bidding for projects, increase in the operating cycle and deterioration in the quality of receivables remain key rating monitorables.

##### **Support to loss making JVs**

The loans and advances to JVs have decreased from Rs. 560.22 crore as on Dec 31, 2017 to Rs.437.76 crore as on March 31 2019. The balances include initial funding support that was given to Bangalore Metro Project as well as funding for the losses incurred by Delhi Metro Project. The decline in amount is account of release of funds from the Bengaluru and Delhi projects.

Though the exposure to the related parties (largely loss making) has declined; yet the same when compared to its net worth is quite significant. Any further increase in support to JVs would remain a key rating sensitivity.

#### Analytical approach: Consolidated

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 have been consolidated) 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)
Total operating income	2,074.6	3,178.77
PBILDT	292.11	346.39
PAT	72.93	83.16
Overall gearing (times)	0.89	0.56
Interest coverage (times)	3.34	2.79

\*for 15 months ended Jan 2018-Mar 2019

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

#### 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	-	-	Dec-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 (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; 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; 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; Stable / CARE A1 (06-Jun-18)	1)CARE A-; Positive / CARE A1 (09-Nov-17)	1)CARE A- / CARE A1 (13-Jul-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**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 have been consolidated)
- v) CEC-ITD Cem-TPL Joint Venture

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