The Indian Hume Pipe Company Limited

July 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	50.00 (enhanced from 1.88)	CARE A; Stable [Single A; Outlook: Stable]	Revised from CARE A+; Stable [Single A Plus; Outlook: Stable]
Long-term Bank Facilities	805.00 (enhanced from 625.00)	CARE A; Stable [Single A; Outlook: Stable]	Revised from CARE A+; Stable [Single A; Outlook: Stable]
Short-term Bank Facilities	215.00	CARE A1 [A One]	Revised from CARE A1+ [A One Plus]
Long-term/ Short-term Bank Facilities	1,150.00 (enhanced from 1,050.00)	CARE A; Stable/ CARE A1 [Single A; Outlook: Stable/ A One]	Revised from CARE A+; Stable/ CARE A1+ [Single A Plus; Outlook: Stable/ A One Plus]
Total Facilities	**2,220.00 (Rs. Two thousand two hundred and twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of The Indian Hume Pipe Company Limited (IHP) is on account of elongation in the collection period as a result of slower realisation of receivables and high unbilled revenue leading to higher operating cycle and increasing reliance on debt to support the operations of the company.

The ratings, however, continue to derive strength from the proven track record of the company in the water and irrigation infrastructure construction segment, vast experience of the promoters in the Engineering, Procurement and Construction business and geographic diversification of the order book. The ratings also factor in steady revenues coupled with moderate profit margins amidst prevailing competition, moderate capital structure along with comfortable debt coverage indicators, adequate liquidity position and revenue visibility on back of healthy order book position.

The above rating strengths continue to be tempered by high working capital intensive nature of operations associated with the EPC business demonstrated by elongated operating cycle, high execution risk given majority of the order book is in nascent stage and competitive nature of the industry.

Going forward, IHP's ability to timely execute its work orders coupled with improvement in operating cycle through collection of receivables and unbilled revenue would be critical from credit perspective. Also, maintaining profitability and improvement in capital structure through reduction in reliance on debt by efficiently managing its working capital requirements are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Proven track record coupled with vast experience of the promoters in the water and irrigation infrastructure business

Over the past several years, the company has successfully executed large and complex projects of various types across the country and established strong position in the water and irrigation infrastructure business in India with a proven track record. IHP has over nine decades of experience in the EPC and commissioning business in India. Over the years, IHP has been able to establish its position as one of the major players providing its services in water supply, irrigation and sewerage-related projects. Besides, the promoters have vast experience in the EPC business.

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

Healthy order book providing better revenue visibility with inbuilt price escalation clause for majority of the contracts

IHP has a strong order book position of around Rs. 5,326 crore (as on May 20, 2019) spread across 11 states in the country and executable over a period of 24–30 months. The strong order book position, provides revenue visibility over the near to medium term (3.2x times FY19 total income). A large proportion (over 80-85%) of these orders have inbuilt price escalation clauses safeguarding the company to a great extent against any severe raw material price fluctuations.

Geographically diversified order book position

IHP has operations spread across the major states including Andhra Pradesh (AP), Madhya Pradesh (MP), Maharashtra, Karnataka, Gujarat, Chhattisgarh, Telangana, Rajasthan, Karnataka, and Maharashtra. Earlier, the order book was highly concentrated from AP and Telangana, however the share of AP and Telangana (33% as on May 20, 2019 as compared to ~40% on August 06, 2018) has been declining as the company has been successful in winning projects in other states. This reduces the order book concentration risk of the company. Going forward, the company is making attempts to further reduce reliance on AP and Telangana as it expects to receive more orders from other states.

Steady revenues with moderate profitability margins

The total operating income stood at Rs. 1,643.04 crore during FY19, an increase of around 4.32% y-o-y as compared to Rs.1,574.21 crore during FY18. The marginal increase in revenue during FY19 was on account of execution of order book. The operating profitability of the company increased from 9.78% in FY18 to 11.51% in FY19 owing to execution of margin accretive orders. PAT margin also increased on a y-o-y basis from 4.2% to 5.25% owing to higher PBILDT. This has led to increase in gross cash accruals.

Moderate capital structure and comfortable debt coverage indicators

The debt profile of the company mainly consists of term debt, working capital bank borrowing, LC acceptances, mobilisation advances and bills discounting facilities. The debt levels though increased, on the back of higher working capital borrowings to fund majority of its working capital requirements, the overall gearing ratio (including letter of credit acceptances and mobilisation advances) of the company remained moderate at 1.22x as on March 31 2019 as compared to 1.20x as on March 31 2018. The increase in working capital borrowing was owing to funding the execution of more orders in Q4FY19 as compared to the 9MFY19. However, the working capital utilisation has remained moderate at an average of around 77% for the 12 month period ended March 31 2019. Interest coverage ratio and total debt to gross cash accruals remained comfortable at 3.69x in FY19 (3.59x for FY18) and at 6.43x in FY19 (7.82x for FY18) respectively. Going forward, increase in gearing levels more than envisaged levels is a key rating sensitivity.

Adequate liquidity position

The liquidity position of the company though moderated owing to slower realisation of debtors; yet is considered to be adequate with current ratio being 1.27x and having free cash and bank balance of Rs.10.33 crore. Further, the company has undrawn limits of around 23% of the sanctioned limits i.e. around Rs.663.75 crore to support its operations in case of exigencies (if any).

Key Rating Weaknesses

Working capital intensive operations owing to elongated operating cycle as a result of higher receivables

IHP's business is working capital intensive in nature, largely due to milestone based payments in majority of its EPC contracts resulting into higher receivables. The operating cycle increased from 169 days in FY18 to 223 days in FY19 owing to increase in receivable days from 249 days in FY18 to 283 days in FY19. The increase in collection period is on account of higher execution of orders in Q4FY19 which has led towards increase in receivables (including retention money) from 474.9 crore as on March 31, 2018 to Rs. 598.55 crore as on March 31, 2019. Besides, the unbilled revenue though reduced marginally on a y-o-y basis; yet it continues to remain higher and keep the receivable period elevated. Going forward, ability of the company to timely collect receivables as well as unbilled revenue would be critical from credit perspective and any inordinate delay or deterioration in collection period is a key rating sensitivity.

High level of competition and working capital intensity of the construction business:

IHP operates in the EPC industry which has high working capital intensity and is 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 is expected to benefit from the government's push for spending on infrastructure. However, the operating profit margins of the players in the industry have remained moderate due to presence of large number of players in the market. Nevertheless, players with superior execution capabilities and financial flexibilities are better placed to overcome the competition in the market. On the other hand, IHP being a relatively moderate sized entity in the sector as compared to multinational/ large group companies have limited financial flexibility and therefore execution of healthy order book position and timely collection of receivables to fund the same remains to be seen.

Analytical approach: Standalone

Applicable Criteria
Financial ratios – Non-Financial Sector
CARE's methodology for Urban Infrastructure Projects
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments

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. The company is considered a pioneer in the field of water supply industry; it is in this line for last nine decades. The company's presence is there 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 pipe laying contracts as well. Majority of IHP's clients consist of various State and Central Government agencies.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)*
Total operating income	1,574.21	1,634.04
PBILDT	153.95	189.05
PAT	66.06	86.31
Overall gearing (times)	1.20	1.22
Interest coverage (times)	3.59	3.53

*as per abridged results published on BSE

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-Long Term	-	-	-	805.00	CARE A; Stable
Non-fund-based-Short Term	-	-	-	215.00	CARE A1
Fund-based - LT-Term Loan	-	-	May 03, 2025	50.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1150.00	CARE A; Stable / 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.	Fund-based-Long Term	LT	805.00	CARE A; Stable	-	1)CARE A+; Stable (04-Oct-18)	1)CARE A+; Stable (17-Jul-17)	1)CARE A+ (01-Sep-16)
2.	Non-fund-based-Short	ST	215.00	CARE A1	-	1)CARE A1+	1)CARE A1+	1)CARE A1+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
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	Term					(04-Oct-18)	(17-Jul-17)	(01-Sep-16)
3.	Fund-based - LT-Term Loan	LT	50.00	CARE A; Stable	-	1)CARE A+; Stable (04-Oct-18)	1)CARE A+; Stable (17-Jul-17)	1)CARE A+ (01-Sep-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1150.00	CARE A; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1+ (04-Oct-18)	-	-

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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