The Indian Hume Pipe Company Limited (Revised)

October 05, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long-term Bank Facilities	147.50 (Enhanced from 50.00)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Revised from CARE A; Stable [Single A; Outlook: Stable]**
Long-term Bank Facilities	707.00 (Reduced from 805.00)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Revised from CARE A; Stable [Single A; Outlook: Stable]**
Short-term Bank Facilities	60.00 (Reduced from 215.00)	**CARE A2+ [A Two Plus]**	**Revised from CARE A1 [A One]**
Long-term/ Short-term Bank Facilities	1,073.00 (Reduced from 1,150.00)	**CARE A-; Stable/ CARE A2+ [Single A Minus; Outlook: Stable/ A Two Plus]**	**Revised from CARE A; Stable/ CARE A1 [Single A; Outlook: Stable/ A One]**
Total Facilities	**1,987.50 (Rupees One Thousand Nine Hundred and Eighty Seven Crore and Fifty Lakhs 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) factors in the further elongation in the collection period as a result of slower realisation of receivables and high unbilled revenue leading to higher operating cycle and thereby increasing reliance on debt to support the operations of the company. Consequently, the company's capital structure and debt coverage indicators have deteriorated on a year on year basis.

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 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, slowdown in the pace of execution as a result of Covid-19 pandemic and competitive nature of the industry.

CARE notes that the lockdown in the country implemented by the government from time to time towards containment of COVID-19 in the recent past has impacted the business operations of the company in Q1FY21 owing to lower pace of construction on the back of issue with labour availability. However the same is gradually resolving with the business gaining momentum and as per the management, with various unlock measures announced by the government, the business is expected to recover to normalcy by H2FY21.

Going forward, IHP's ability to timely execute its work orders coupled with improvement in operating cycle through timely collection of receivables and unbilled revenue would be critical from credit perspective. Also,

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

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.

Rating Sensitivities

Positive factors:

- Significant improvement in gross current asset days on a sustained basis while improving scale of operations and profitability margins.
- Improvement in working capital management or infusion of funds resulting into overall gearing falling below 0.75x

Negative factors:

- Significant decline in scale of operations or profit margins
- Higher than envisaged debt either due to large debt funded capex or stretch in the working capital cycle resulting into weakening of financial risk profile

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.

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

IHP has a strong order book position of around Rs. 4,445 crore (as on August 15, 2020) 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 (2.73x times FY20 total income). A large proportion 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, Orissa, Telangana, Rajasthan. Earlier, the order book was highly concentrated from AP and Telangana; however the share of AP and Telangana (~15% as on August 15, 2020 as compared to ~33% on May 20, 2019) has been declining as the company has bidding projects in other states. This reduces the order book concentration risk of the company.

Steady revenues with moderate profitability margins

The total operating income (TOI) has remained steady in FY20 as compared to FY19 (Rs. 1,648 Cr in FY19 vs Rs. 1,628 Cr in FY20). The PAT Margin was 4.51% in FY20 as compared to 5.24% in FY19. However, during FY20 the PBILDT margins stood at 11.96% (11.47% in FY19). The billing and collections of Q4FY20 were lower as compared to Q4FY19 due to the nationwide lockdown. Thus, the overall turnover declined marginally on a y-o-y basis as the work done and billed got deferred. Further, during Q1FY21, the total operating income of the company stood at Rs.219.27 crore (P.Y. Rs 464.05 crore) with PBILDT of Rs.16.82 crore(P.Y. Rs.52.14 crore) and incurred losses owing to business operations impacted as a result of lockdown. However, with the business gaining momentum, the operations are expected to return to normalcy in H2FY21.

Key Rating Weaknesses

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

The nature of company's business is highly working capital intensive, largely due to milestone based payment terms in almost all its contracts as well as retention money being held up by clients till the end of performance guarantee period (12-24 months), an inherent norm in the EPC industry. The average collection period (including retention money and unbilled revenues) has remained high at 313 days (FY19: 283 days) as sizeable retention money is blocked in completed projects till the end of performance guarantee period. Further, gross current asset (GCA) days continued to remain high at 394 days (P.Y.359 days) during FY20 owing to higher receivables and other current assets. This has resulted in the increase in operating cycle from 179 days in FY19 to 198 days in FY20.

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 increase in collection period or operating cycle is a key rating sensitivity.

Deterioration in capital structure and debt coverage indicators

The debt profile of the company mainly consists of term debt, working capital bank borrowing, LC acceptances, mobilisation advances, bills discounting facilities and lease liability. The overall gearing ratio (including LC acceptances and Mobilization Advances) moderated from 1.22x in FY19 to 1.37x in FY20. Further, the gearing ratio (Including LC Acceptances., Mobilization Advances and Lease Liability) stood at 1.39x. This is largely on account of increase in Term Loan and Working Capital loan, availed to partly fund Capital Expenditure and partly the increased receivables (of which majority i.e. 60.66% is retention money).

The company's debt protection metrics such as total outside liabilities to tangible networth remained high at 2.54x as on March 31 2020 as compared to 2.42x as on March 31 2019. The interest coverage ratio decreased from 3.53x in FY19 to 2.54x in FY20. Total Debt/GCA elevated from 6.39x in FY19 to 8.41x in FY20. Going forward, increase in gearing levels from the present levels is a key rating monitorable.

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.

Impact of Covid on operations of the company:

COVID-19 pandemic and subsequent lockdowns in the country has resulted in disruption in the operations of the company. The company started skeletal operations commenced from 1st week of May wherein permissions from district level government authorities were available on a case to case basis. In the initial phase, the supply chain was disrupted owing to labour availability, thereby impacting the pace of construction and consequently the company's revenue stood lower by Rs. 100 crore in Q4FY20. Moreover, the business operations continued to remain impacted in Q1FY21 owing to lockdown, labour migrating to home towns and travel restrictions. However, the same has been improving gradually and presently all sites are functional at 70-80% capacity. Further, as per the management, the same is expected to improve and return to normalcy levels in H2FY21.

Liquidity: Adequate

The liquidity Position of the company has moderated owing to slower realization of debtors. The firm has a free cash and bank balance of Rs. 17.97 Crores as on March 31, 2020. However, with having its unutilized bank lines of

Rs. 138 Crores, which is around 20% of its sanctioned limits, the liquidity seems to be adequate to support its operations. The Company has availed moratorium for its Bank facilities with few lenders for the period March-August 2020.

Analytical approach: Standalone

Applicable Criteria
Financial ratios – Non-Financial Sector
Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology for Construction Sector
Financial Ratios- Non Financial Sector
Liquidity Analysis of 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. 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)	FY19 (A)	FY20 (A)
Total operating income	1648.52	1627.98
PBILDT	189.05	194.7
PAT	86.31	73.41
Overall gearing (times)	1.22	1.39
Interest coverage (times)	3.53	2.54

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

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	-	-	-	707.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	May 2025	147.50	CARE A-; Stable
Non-fund-based-Short Term	-	-	-	60.00	CARE A2+
Non-fund-based - LT/ ST-BG/LC	-	-	-	1073.00	CARE A-; Stable/ CARE A2+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	707.00	CARE A-; Stable	-	1)CARE A; Stable (05-Jul-19)	1)CARE A+; Stable (04-Oct-18)	1)CARE A+; Stable (17-Jul-17)
2.	Non-fund-based-Short Term	ST	60.00	CARE A2+	-	1)CARE A1 (05-Jul-19)	1)CARE A1+ (04-Oct-18)	1)CARE A1+ (17-Jul-17)
3.	Fund-based - LT-Term Loan	LT	147.50	CARE A-; Stable	-	1)CARE A; Stable (05-Jul-19)	1)CARE A+; Stable (04-Oct-18)	1)CARE A+; Stable (17-Jul-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1073.00	CARE A-; Stable / CARE A2+	-	1)CARE A; Stable / CARE A1 (05-Jul-19)	1)CARE A+; Stable / CARE A1+ (04-Oct-18)	-

Annexure 3- Detailed explanation of covenants of the rated facilities

Financial Covenants	TOL/TNW <= 3.5 times Minimum DSCR of 1.5x to be maintained at all times Term Debts(Excluding WC Finance)/Cash Accrual <=2x 25% margin against all components of inventory for CC facilities
Non-Financial Covenants	The Company cannot diversify into non-core areas without prior permission The Company must repay each tranche of the WC Demand loan within a maximum period of 90 days from the date of disbursement of such tranche or on the expiry of the validity period for drawals, whichever is earlier

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based-Short Term	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - LT/ ST-BG/LC	Simple

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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