

January 24, 2023

## ITD CemIndia JV: [ICRA]A (CE) (Stable)/[ICRA]A1 (CE) withdrawn; fresh rating of [ICRA]BBB+ (Stable)/ [ICRA]A2 assigned

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term (LT) Fund-based Overdraft	94.0	94.0	[ICRA]A(CE) (Stable) withdrawn and [ICRA]BBB+ (Stable)/ assigned simultaneously
Short-term Non-fund Based Limits	104.0	101.5	[ICRA]A1(CE) withdrawn and [ICRA]A2 assigned simultaneously
<b>Total</b>	<b>198.00</b>	<b>195.50</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has withdrawn its ratings of [ICRA]A (CE) (Stable)/[ICRA]A1(CE) for the bank facilities of ITD CemIndia JV (ITD JV) and has simultaneously assigned fresh ratings of [ICRA]BBB+ (Stable)/ [ICRA]A2 for these facilities.

The withdrawal of the CE ratings is triggered by the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings. The [ICRA]A(CE) (Stable)/ [ICRA]A1(CE) ratings drew comfort from the presence of a corporate guarantee extended by ITD Cementation India Limited (ITD Cementation, rated [ICRA]A (Stable)/[ICRA]A1) and Italian-Thai Development Public Company Limited (ITD Thai) in favour of the said facilities. For assigning the ratings, ICRA assessed the attributes of the guarantee issued in favour of the rated facilities. The guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facilities, and met all the attributes of a strong guarantee. Taking cognisance of the above, ICRA had assigned ratings of [ICRA]A(CE) (Stable)/ [ICRA]A1(CE) to the said facilities.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison to a support that is only implicit in nature.

Explicit support was considered for ITD JV as the guarantee was legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated facility. However, it does not have a well-defined invocation and payment mechanism and therefore, the withdrawal of the CE ratings is triggered.

The above ratings were earlier based on the unconditional and irrevocable corporate guarantee from ITD Cementation and ITD Thai in the ratio of 80:20 for the bank lines of ITD JV.

The ratings of [ICRA]BBB+ (Stable)/ [ICRA]A2 take into account ITD JV's strong parentage by virtue of being a part of the ITD Group, which has significant experience in executing metro projects. Majority of the unexecuted order book for the company is being contributed by the Bangalore metro project, which is in the advanced stages of execution with 92.72% progress achieved as on September 30, 2022. The ratings note the availability of majority of right of way, along with other requisite approvals. Moreover, three out of the four packages have been completed (two of which have been handed over to the Authority). While the client concentration risk is high, the counterparty risk is relatively modest with Bangalore Metro Rail Corporation Limited as the primary customer.

The ratings are, however, constrained by the pending execution risk with one of the packages yet to be completed. Since the purpose of the JV was primarily to execute a part of the Bangalore metro, it is not expected to house more projects post completion of the metro project.

## Key rating drivers and their description

### Credit strengths

**Strong parentage by virtue of being part of ITD Group** – The company has a strong parentage, by virtue of being a part of the ITD Group, which has vast experience in undertaking metro projects across various geographies.

### Credit challenges

**Pending execution risk** – ITD JV’s productivity in FY2021 and FY2022 was impacted by the Covid-19 pandemic-related lockdown. However, the project execution improved with 92.72% of completion till September 30, 2022 and completion of only one package remains pending.

**Weak financial performance of JV** – The overall financial performance of the JV has been weakened by continued losses, which as per the management is estimated at Rs. 162.73 crore (overall packages) up to H1 FY2023. An additional ~Rs. 35 crore is expected to be booked in H2FY2023 and FY2024.

### Liquidity position: Adequate

The liquidity position of ITD CemIndia JV is adequate as reflected in the unencumbered cash and bank balance, which stood at Rs. 73.3 crore as on March 31, 2022. There is no long-term debt outstanding as on March 31, 2022.

### Rating sensitivities

**Positive factors** – The upgrade in ratings is unlikely given the characteristics of the JV.

**Negative factors** – The ratings can be downgraded if there is weakening in linkages with the sponsor or if there is any significant cost and time overrun in the project, or there is material deterioration in the credit profile of the sponsor group.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a> <a href="#">Policy on Withdrawal of Credit Ratings</a> <a href="#">Construction Entities Methodology</a> <a href="#">Rating Approach - Implicit parent or group support</a>
Parent/Group support	Parent Company: ITD Cementation  ICRA expects ITD Cementation to be willing to extend financial support to ITD JV , should there be a need, given its strategic importance to the ITD Group, and out of its need to protect its reputation. Both ITD Cementation and ITD JV also share the common name, which in ICRA’s opinion, would persuade ITD Cementation to provide financial support to ITD JV to protect its reputation from the consequences of a Group entity’s distress.
Consolidation/Standalone	Standalone

## About the company

ITD JV is a joint venture between ITD Cementation and ITD Thai in 80:20 ratio. In June 2017, Bangalore Metro Rail Corporation Ltd awarded four packages of Bangalore metro works to ITD JV involving construction of elevated structures (viaduct and stations) of length 28.06 KM including widening of road, allied works and 24 metro stations for a total contract value of Rs. 2,370 crore. The contract value was subsequently revised to Rs. 2,511.54 crore. In addition, ITD JV is executing rehabilitation and refurbishment of water works at Palta and Garden Reach, Kolkata, for a total contract value of Rs. 310 crore, out of which 30% is unexecuted as on September 30, 2022.

### Key financial indicators (Audited)

	FY2021	FY2022
<b>Operating income</b>	493.8	343.8
<b>PAT</b>	-30.9	-56.0
<b>OPBDIT/OI</b>	0.5%	-12.3%
<b>PAT/OI</b>	-6.3%	-16.3%
<b>Total outside liabilities/Tangible net worth (times)</b>	1.4	0.8
<b>Total debt/OPBDIT (times)</b>	5.6	0.0
<b>Interest coverage (times)</b>	0.1	-4.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020		
				Jan 24, 2023	Oct 7, 2021	Dec 07, 2020	Feb 26, 2020	Sep 27, 2019	Jul 05, 2019
1	Overdraft	94.0	-	[ICRA]A(CE) (Stable) withdrawn and [ICRA]BBB+ (Stable)/ assigned simultaneously	[ICRA]A(C E) (Stable)	[ICRA]A(CE) (Negative)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) &	[ICRA]A(SO) (Stable)
2	Working Capital Demand Loan	-	-	-	[ICRA]BBB+ (Stable); Withdrawn	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Letter of Credit	101.5	-	[ICRA]A1(CE) withdrawn and [ICRA]A2 assigned simultaneously	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(C E) &	[ICRA]A1(SO)

*&: Rating watch with developing implications*

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Overdraft	Simple
Letter of Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	-	-	-	94.0	[ICRA]A(CE) (Stable) withdrawn and [ICRA]BBB+ (Stable)/ assigned simultaneously
NA	Letter of Credit	-	-	-	101.5	[ICRA]A1(CE) withdrawn and [ICRA]A2 assigned simultaneously

Source: Company

**Annexure II: List of entities considered for consolidated analysis – Not applicable**

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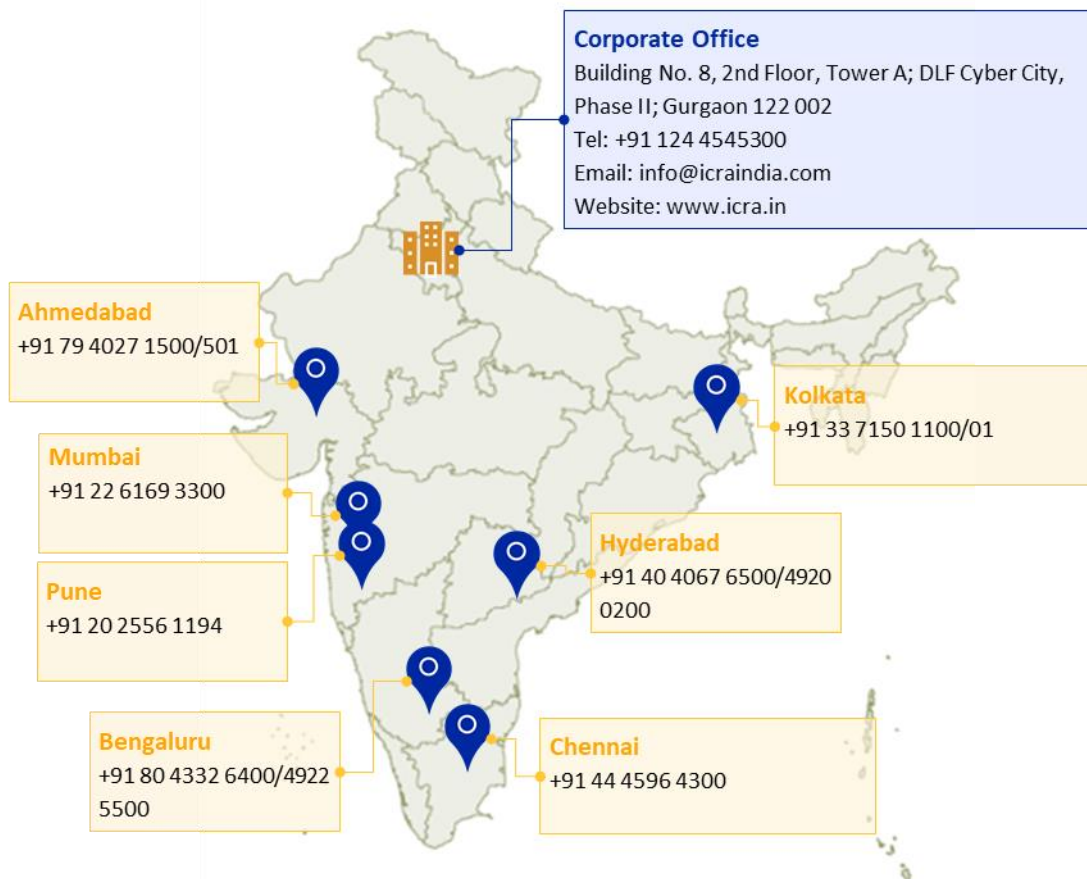
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