

January 24, 2023

CEC ITD Cem TPL JV: [ICRA]A (CE) (Stable)/[ICRA]A1 (CE) withdrawn; fresh ratings of [ICRA]BBB+ (Stable)/ [ICRA]A2 assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-Term Fund Based Limits	50.00	40.00	[ICRA]A1(CE) withdrawn and [ICRA]A2 assigned simultaneously
Long-Term (LT) / Short-Term Non-Fund Based Limits	100.00	60.00	[ICRA]A(CE)(Stable)/[ICRA]A1(CE); withdrawn and [ICRA]BBB+(Stable)/[ICRA]A2 assigned simultaneously
Total	150.00	100.00	

*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ICRA has withdrawn its ratings of [ICRA]A (CE) (Stable)/[ICRA]A1(CE) for the bank facilities of CEC ITD Cem TPL JV (CIT) and has simultaneously assigned fresh ratings of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 Tata Projects Limited (TPL) in favour of the said facility. For assigning the ratings, ICRA assessed the attributes of the guarantee issued by in favour of the rated facility. The guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facility, 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 facility.

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 against support that is only implicit in nature.

Explicit support was considered for CIT 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 was earlier based on the unconditional and irrevocable corporate guarantee from ITD and TPL in the ratio of 60:40 respectively for the bank lines of CIT.

The ratings of [ICRA]BBB+ (Stable)/[ICRA]A2 take into account CIT's strong parentage by virtue of being a part of ITD Group, which has significant experience in executing metro projects. The company's unexecuted order book is being solely contributed by the Mumbai metro project (underground section), which is in the advanced stages of execution with 80.26% progress achieved as on March 31, 2022. While the joint venture (JV) is exposed to execution risk, strong track record of the sponsor and EPC contractor in timely completion project provides comfort.

The ratings are, however, constrained by the concentration risk with the entire unexecuted order book being contributed by one client namely, i.e. Mumbai Metro Rail Corporation Limited (MMRCL). However, the strong credit profile of the client mitigates the counterparty credit risk to some extent. Since the purpose of the JV was to execute a part of the Mumbai metro project, it is not expected to house more projects post completion of the current project.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a 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

High concentration risk – The concentration risk continues to remain very high with the unexecuted order book being solely contributed by one client, i.e. MMRCL. However, the strong credit profile of the client mitigates counterparty credit risk to some extent.

Pending execution risk – The company is exposed to low execution risk as ICRA notes that the project is in the advanced stages of execution with 80.26% progress achieved as on March 31, 2022 (69.2% progress achieved as on March 31, 2021). Further, the entire tunnelling work has been completed, which is one of the most complex part, on the project stretch. This has resulted in release of significant part of the contingencies, which were built into the project cost, thus aiding CIT’s profitability.

Liquidity position: Adequate

CIT’s liquidity position is adequate, as reflected in the unencumbered cash and bank balance, which stood at Rs. 182.5 crore 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	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Policy on Withdrawal of Credit Ratings Construction Entities Methodology Rating Approach - Implicit parent or group support
Parent/Group support	Parent Company: ITD Cementation ICRA expects ITD to be willing to extend financial support to CIT, should there be a need, given its strategic importance to the ITD Group, and out of its need to protect its reputation. Both ITD and CIT share the common name, which in ICRA’s opinion, would persuade ITD to provide financial support to CIT to protect its reputation from the consequences of a Group entity’s distress.
Consolidation/Standalone	Standalone

About the company

Incorporated in May 2015, CIT is a joint venture between ITD, Continental Engineering Construction (CEC) and TPL with ITD holding 40% stake, CEC holding 40% and TPL holding 20% in the JV. However, as per the arrangement between the JV partners, ITD and TPL would be contributing to financing requirements in the ratio of 60:40 and the profits would be shared between the two in the same ratio. In July 2016, CIT was awarded a contract by MMRC to design and construct underground sections including three underground stations at Siddhivinayak, Dadar and Shitla Devi Temple and the associated Bored Tunnel as a part of the Colaba-Bandra-Seepz Line metro corridor project (Line-3) for the Mumbai metro. The package was awarded to CIT at a value of Rs. 2,830.10 crore. CIT had an unexecuted order book of Rs. 558.80 crore as on March 31, 2022.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	464.7	320.4
PAT	44.1	48.1
OPBDIT/OI	30.4%	26.5%
PAT/OI	9.5%	15.0%
Total outside liabilities/Tangible net worth (times)	52.5	10.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	24.5	24.9

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 on 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	Short term	40.00	-	[ICRA]A1(CE) withdrawn and [ICRA]A2 assigned simultaneously	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(CE) &	[ICRA]A1(SO)
2 Bank Guarantee/Letter of Credit	Long term/Short term	60.00	-	[ICRA]A(CE)(Stable)/[ICRA]A1(CE); withdrawn and [ICRA]BBB+(Stable)/[ICRA]A2 assigned simultaneously	[ICRA]A(CE)(Stable)/[ICRA]A1(CE)	[ICRA]A(CE)(Negative)/[ICRA]A1(CE)	[ICRA]A(CE)(Stable)/[ICRA]A1(CE)	[ICRA]A(CE)(Stable)/[ICRA]A1(CE)	[ICRA]A(CE) & [ICRA]A1(CE)	[ICRA]A(SO)(Stable)/[ICRA]A1(SO)

&: Rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Overdraft	Simple
Bank Guarantee/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	-	-	-	40.00	[ICRA]A1(CE) withdrawn and [ICRA]A2 assigned simultaneously
NA	Bank Guarantee/Letter of Credit	-	-	-	60.00	[ICRA]A(CE)(Stable)/[ICRA]A1(CE); withdrawn and [ICRA]BBB+(Stable)/ [ICRA]A2 assigned simultaneously

Source: Company

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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