Press Release

The Indian Hume Pipe Company Limited (IHP)

December 12, 2023

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	700.00	IVR A-/Stable (IVR A Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	90.00	IVR A2+ (IVR A Two Plus)	Assigned	Simple
Long Term/Short Term Bank Facilities	1,150.00	IVR A-/Stable/IVR A2+ (IVR A Minus with Stable Outlook; IVR A Two Plus)	Assigned	Simple
Proposed Long Term/Short Term Bank Facilities	60.00	IVR A-/Stable/IVR A2+ (IVR A Minus with Stable Outlook; IVR A Two Plus)	Assigned	Simple
Total	**2,000.00 (Rupees Two thousand crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The ratings assigned to the bank facilities of The Indian Hume Pipe Company Limited (IHP) derive strength from the experienced promoters and established track record of the company in the water supply segment, healthy order book position ensuring revenue visibility, stable operating profile and favourable prospects in the water supply industry. The rating strengths are however, constrained by working capital intensive nature of operations, implementation risk of projects inherent in the EPC industry and susceptibility of operating margins due to volatility in input prices.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business and improvement in profitability thereby leading to improvement in cash accruals and liquidity on a sustained basis.

- Improvement in collection performance and working capital cycle on a sustained basis
- Improvement in TOL/TNW with improvement in debt protection metrics like Total debt to GCA.

Downward Factors

- Moderation in total operating income leading to deterioration in profitability and cash accruals.
- Any major delays in completion of ongoing projects resulting in higher dependence on working capital borrowings thereby impacting the debt protection metrics.
- Delays in realization of stuck debtors impacting the cash flows and liquidity of the company.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters and established track record of operations in water supply segment

IHP has over nine decades of experience in EPC business and established itself as one of the major players providing EPC services in water supply, irrigation and sewerage related projects. The company has an established track record of operations across 12 states. IHP is promoted by Mr. Rajas Doshi, a qualified civil engineer. He has more than 48 years of experience in the field of manufacturing, construction, project execution, marketing and sales. Long standing experience of the promoter in the construction industry has led to the established position of the company in India. The promoters are supported by a well-qualified and experienced management team.

Healthy order book position

IHP has an order book of Rs. 4,167 crores as on October 31, 2023 (~2.70 times of the revenues in FY23) to be executed over an average period of 24 to 30 months, which provides adequate revenue visibility in the near to medium term. The order book is well diversified in terms of region and spread over 12 states namely Odisha, Andhra Pradesh, Karnataka, Madhya Pradesh, Rajasthan, Uttar Pradesh and Maharashtra. The order book is distributed among state and central government entities in the ratio of 80:20. Out of the total order book around 90% is under Har Ghar Jal Scheme of Central Government in various states. The order book includes new orders of Rs.963.41 crore received during April 2023 to September 2023. Timely execution of existing order book within the envisaged costs and time will be a key rating monitorable.

Stable operating profile

IHP's total operating income (TOI) has been stable with TOI at Rs.1520.39 crore in FY22 and Rs.1542.98 crore in FY23. EBITDA margin moderated from 10.51% in FY22 to 9.44% in FY23 on account of increase in the construction cost due to rise in the price of various raw materials. However, PAT margin has remained at similar levels at 3.79% in FY22 and 3.56% in FY23. The company has achieved revenue of Rs. 665.81 crore and EBITDA margin of 9.16% in H1FY24.

Favorable prospects in the water supply industry

In June 2019, the government set an ambitious target of providing Functional Household Tap Connection for all rural households by 2024 under the Jal Jeevan Mission (JJM). Total estimated cost of JJM is Rs 3.60 lakh crore. The fund sharing pattern between Centre and State is 90:10 for Himalayan (Uttarakhand, Himachal Pradesh) and North-Eastern States, 100:0 for UTs and 50:50 for rest of the states. JJM scheme has been successful and rural households with tap connections was 13.73 crores (71.37%) against total rural tap connections of 19.24 crores households as on December 04,2023. IHP operates in the water pipeline segment where this scheme is announced. There are significant scope of additional water supply works under the scheme in various states like Uttar Pradesh, Jharkhand, Rajasthan etc. The Har Ghar Jal in Union Budget 2022-23 has been allocated funds of Rs.60 thousand crores. Driven by the Government initiatives and rising demand, the Indian water sector has witnessed several successful Public Private Partnerships and Engineering Procurement Construction projects in the last decade, proving that the country has a favorable investment ecosystem in the domain. This provides a great opportunity to the companies offering innovative technologies and solutions that could address the impending water situation in the country. India also has immense potential for the development of Sewage Treatments Plants, desalination projects, and other wastewater treatment and reuse projects over and above the development of drinking water supply infrastructure. This will be beneficial to companies like IHP.

Key Rating Weaknesses:

Working capital intensive operations

IHP's operations have remained working capital intensive due to the inherent nature of the EPC business. The company has higher receivables position due to the milestone-based payments, built up of retention money, delays associated with projects as major customers are government entities, position of state finances and procedural delays. The average collection days were high at 191 days in FY23 and 169 days in FY22. The company has realized around Rs. 408.24 crores from the stuck projects in the period from October 2022 to September 2023. Further expected collections from stuck projects in Q4FY24 are expected to further reduce total lock-up by Rs.100 crores. Overall gearing of the company had moderated to1.12x as on March 31, 2023, as against 1.03x as on March 31, 2022, due to increase in working capital borrowings. TOL/TNW remained moderate at 2.14x as on March 31, 2023, against 2.04x as on March 31, 2022. The debt protection metrics are moderate with interest coverage ratio at 1.89x as on March 31, 2023. Total debt/Gross Cash Accruals is high at 12.53x in FY23. The average working capital utilization was high at ~95% utilization in September 2022. However, the company has managed to reduce it to ~80% in September 2023. Efforts taken have helped reduce average utilizations from April 2023 to September 2023 to ~85%. Further, the promoters have infused Rs.60 crores through preferential allotment in June 2023. This has helped improve the gearing to 0.75x and TOL/TNW to 1.75x as on September 30, 2023. Further, there have been inflows from three land development projects between April 2023 to November 2023 of Rs.44.40 crores, thus supporting working capital requirements of the company. An additional inflow of Rs.25 crore from these projects is expected in Q4FY24.

Implementation risk of projects inherent in EPC business

The order book comprises projects under execution wherein the company has been receiving Extension of Time (EOT) for slower progress. There is an EOT in most government projects mainly due to the Change of Scope (COS) and this extension is mainly asked by principal contractors or Government itself. The delays were also due to getting various approvals at every milestone for the project.

Susceptibility of operating margin to volatile input prices

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. Historically, the cost of these raw materials and steel products have been volatile in nature and hence, profitability margins of the company are susceptible to fluctuation in raw material prices and/or finished products. The EBIDTA margin moderated to 9.44% in FY23 from 10.51% in FY22.

Tender-based nature of operations and highly fragmented & competitive industry

The company is getting most of its orders through tenders floated by various government departments. As the infrastructure industry is highly fragmented due to the presence of many organized and unorganized players, tender driven nature of business leads to volatility in revenue and profitability. Projects largely depend on the government entities policy on approval of finance and allocation of funds as well as their ability to raise funds to undertake such water supply projects amongst various infrastructure related projects being implemented by them. Adverse policy changes, lack of funds, delays the work resulting in higher cost can affect the business prospects of the industry and the company. However, the company's long industry experience of nearly nine decades and presence in multiple states mitigates this risk to some extent.

Analytical Approach: Standalone approach

Applicable Criteria:
Criteria of Rating Outlook
Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria on Default Recognition

Liquidity – Adequate

Liquidity position is adequate marked by sufficient cushion expected in average accruals in the range of ~Rs.68 crore in FY24 and ~Rs. 85 crores in FY25 vis-à-vis debt repayment obligations of Rs.15.23 crore in FY24 and Rs. 10.50 crore in FY25. The company had high working capital utilization at ~95% in the month of September 2022 which it has managed to reduce to ~80% in the month of September 2023. Efforts have been made to reduce utilisations thus resulting in average working capital utilization from April 2023 to September 2023 reducing to ~85%. The company has also realised around Rs. 408.24 crores from the stuck projects in the period from October 2022 to September 2023 thus improving liquidity. Further expected collections from stuck projects by Q4FY24 is expected to reduce total lock-up by Rs.100 crores as articulated by the management. In addition, promoters have also infused Rs.60 crores through preferential allotment in June 2023 for working capital requirements. There has been additional inflow of Rs.44.40 crores from three land development projects between April 2023 to November 2023 thus supporting liquidity further. Another Rs.25 crores from these projects is expected till March 2024, thus adding to the liquidity position of company. The company had a free cash and bank balance of Rs.1.05 crore as on March 31, 2023.

About the Company:

The Indian Hume Pipe Company Limited was established by late Mr Walchand Hirachand in 1926. IHP is engaged in providing engineering, procurement, construction and commissioning services in water supply, irrigation and sewerage related projects. The company has presence 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.

Financials: Standalone

(Rs. crore)

For the year ended/ As On	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	1520.39	1542.88
EBITDA	159.79	145.64
PAT	57.79	55.70
Total Debt	667.23	776.64
Tangible Net-worth	649.87	694.85
Ratios		
EBITDA Margin (%)	10.51	9.44
PAT Margin (%)	3.79	3.56
Overall Gearing Ratio (x)	1.03	1.12

**Classification as per Infomerics Standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2022-23	Date(s) & Rating assigned in 2021-22	Date(s) & Rating assigned in 2020-21
1.	Long Term Bank Facilities-Term loan	Long term	50.00	IVR A-/Stable	-	-	-
2.	Long Term Bank Facilities-Cash credit	Long term	650.00	IVR A-/Stable			
3.	Short Term Bank Facilities-Fund based- WCDL	Short term	25.00	IVR A2+	-	-	-
4.	Short Term Bank Facilities-Non-Fund based-Letter of credit	Short term	65.00	IVR A2+	-	-	-
5.	Long Term/ Short Term -Non-Fund Based Facility - LC/BG	Long term/ Short term	1,150.00	IVR A-/Stable/ IVR A2+	-	-	-
6.	Proposed Long Term/ Short Term Non-Fund Based Facility - LC/BG	Long term/ Short term	60.00	IVR A-/Stable/ IVR A2+	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Neha Khan Tel: (022) 62396023 Email: neha.khan@infomerics.com	Name: Amod Khanorkar Tel: (022) 62396023 Email: amod.khanorkar@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which help corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility –Term Loan	-	-	May 15, 2025	50.00	IVR A-/Stable
Long Term Fund Based Facility- Cash Credit	-	-	-	650.00	IVR A-/Stable
Short Term Fund Based Facility- WCDL	-	-	-	25.00	IVR A2+
Short Term Non-Fund Based Facility- Letter of Credit	-	-	-	65.00	IVR A2+
Long Term / Short Term Non-Fund Based Facility- LC/BG	-	-	-	1,150.00	IVR A-/Stable/ IVR A2+
Proposed Long Term / Short Term Non-Fund Based Facility – LC/BG	-	-	-	60.00	IVR A-/Stable/ IVR A2+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-IndianHume-dec23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at https://www.infomerics.com/.