12 February 2020

ITD Cementation, India

Assurance in abundance; execution, the key; retaining a Buy

Rating: **Buy**
Target Price: ₹77
Share Price: ₹62

Though strong accretion continues, a large proportion of the orders ITDC added in the last 12 months have yet to be grounded. Thus, they do not reflect in its revenue performance. The gradually rising contribution from these would mean FY21 is better. The balance sheet is in shape to reap the benefits of an augmented OB. The near-complete/completed status by then for some legacy projects would mean they are no more a drag on overall profitability. We retain a Buy as the adverse developments (pertaining to Kolkata and Bengaluru metro-rails) seem more than factored in, and as the recent strong additions raise hopes of better times.

Kolkata metro-rail, the wait set to end. Having been cleared by the Kolkata High Court, management intends to start tunnelling shortly, and finish in seven months. The other works would continue for another year, implying a 20-month execution timeline. Management does not see it hurting overall profitability, as contingency reserves are good to cover higher costs.

Net debt down q/q. The ~₹0.2bn q/q lower consolidated net debt (at ~₹4.4bn) was the result of lower debt at the Bengaluru metro-rail SPV (gross debt down ~₹0.7bn q/q). This is good as there were concerns about this zero-margin (post-lowered scope) project's ability to generate CF to meet obligations. Post-Q3, the SPV debt seems to be another ~₹0.2bn lower.

Inflows, at new single-year best; OB strength to only rise further. The ~₹29bn H1 additions were followed by firm orders of ~₹26bn in Q3 and L1 of ~₹3.5bn. The ~₹120bn healthy prospect pipeline suggests more is likely in the rest of the year. Ytd additions, though diversified, seem to be lacking marine (its forte); consequently, marine's share in the OB is below 30%.

Valuations. We lower our FY20e earnings ~21% (and ~7% for FY21) to factor in incidental/mobilising costs for some of the recent orders (until these turn contributing), and the lower marine share. We introduce and roll forward our valuation to FY22e. On our revised estimates, the stock trades at PER of 9x FY20e, 8x FY21e and 6x FY22e. **Risk:** Slower-than-expected execution.

Key financials (YE Mar)	CY17	FY19*	FY20e	FY21e	FY22e
Sales (₹ m)	20,605	31,651	28,725	34,256	38,319
Net profit (₹ m)	947	819	695	1,181	1,328
EPS (₹)	6.1	3.8	4.0	6.9	7.7
Growth (%)	86.2	-50.0	26.3	69.8	12.5
PE (x)	35.7	34.5	15.3	9.0	8.0
EV / EBITDA (x)	13.8	10.6	5.3	4.6	4.2
PBV (x)	5.5	2.2	1.0	0.9	0.8
RoE (%)	16.2	8.0	6.6	10.4	10.6
RoCE (%)	24.7	15.6	12.3	14.5	15.1
Net debt / equity (x)	0.6	0.4	0.4	0.5	0.4

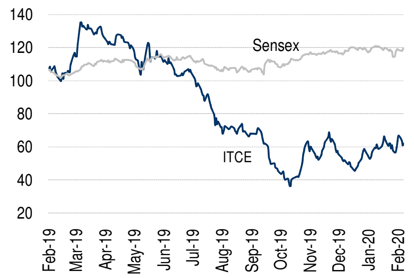
*Source: Company, Anand Rathi Research * FY19 is a15-month period; figures annualised where necessary*

Key data	ITCE IN / ITCM.BO
52-week high / low	₹144 / 35
Sensex / Nifty	41566 / 12201
3-m average volume	$0.3m
Market cap	₹10.7bn / $150m
Shares outstanding	172m

Shareholding pattern (%)	Dec-19	Sep-19	Jun-19
Promoters	46.6	46.6	46.6
- of which, Pledged	-	-	-
Free float	53.4	53.4	53.4
- Foreign institutions	7.3	5.2	5.5
- Domestic institutions	27.0	30.8	29.7
- Public	19.1	17.4	18.2

Estimates revision (%)	FY20e	FY21e
Sales	-0.7	1.1
EBITDA	-5.9	-4.5
EPS	-21.0	-6.5

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (consolidated)

Fig 1 – Income statement (₹ m)

Year-end: Mar	CY17	FY19*	FY20e	FY21e	FY22e
Order backlog	75,132	99,926	1,26,507	1,35,414	1,46,710
Order inflow	32,007	50,516	60,000	47,844	53,519
Net revenues	**20,605**	**31,651**	**28,725**	**34,256**	**38,319**
Growth (%)	*-29.9*	*22.9*	*14.7*	*19.3*	*11.9*
Direct costs	15,753	26,262	24,209	28,763	32,126
SG&A	2,138	2,217	1,649	2,016	2,286
EBITDA	**2,715**	**3,171**	**2,867**	**3,477**	**3,907**
EBITDA margins (%)	*13.2*	*10.0*	*10.0*	*10.1*	*10.2*
Depreciation	577	824	963	1,027	1,089
Other income	353	243	62	60	62
Interest expenses	876	1,243	1,300	1,327	1,449
PBT	1,614	1,346	665	1,183	1,431
Effective tax rate (%)	*32.7*	*38.1*	*33.3*	*25.6*	*25.6*
+ Associates / (Minorities)	-139	-14	252	301	263
Net income	728	819	695	1,181	1,328
Adjusted income	947	819	695	1,181	1,328
WANS	155	172	172	172	172
FDEPS (₹ / sh)	6.1	3.8	4.0	6.9	7.7

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	CY17	FY19*	FY20e	FY21e	FY22e
Share capital	155	172	172	172	172
Net worth	6,173	10,208	10,820	11,918	13,162
Debt	4,886	5,323	5,568	6,472	6,746
Minority interest	9	22	25	25	25
DTL / (Assets)	-17	-52	-52	-52	-52
Capital employed	**11,051**	**15,501**	**16,361**	**18,362**	**19,882**
Net tangible assets	4,618	5,217	4,823	4,974	5,096
Net intangible assets	0	77	1,193	1,177	1,160
Goodwill	0	0	0	0	0
CWIP (tang. & intang.)	385	73	50	50	50
Investments (strategic)	6	6	6	6	6
Investments (financial)	0	0	0	0	0
Current assets (ex cash)	17,764	19,460	21,636	25,025	27,619
Cash	1,158	1,087	982	1,035	1,064
Current liabilities	12,880	10,420	12,329	13,904	15,113
Working capital	4,885	9,041	9,307	11,121	12,506
Capital deployed	**11,051**	**15,501**	**16,361**	**18,362**	**19,882**
Contingent liabilities	24,003	17,340	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	CY17	FY19*	FY20e	FY21e	FY22e
PBT+ Net interest expense	2,137	2,346	1,903	2,450	2,818
+ Non-cash items	577	824	963	1,027	1,089
Oper. prof. before WC	2,715	3,171	2,867	3,477	3,907
- Incr. / (decr.) in WC	1,382	4,156	267	1,814	1,384
Others incl. taxes	528	513	222	303	367
Operating cash-flow	804	-1,499	2,379	1,359	2,156
- Capex (tang. + intang.)	1,670	1,190	1,662	1,161	1,195
Free cash-flow	-866	-2,688	717	198	961
Acquisitions	0	0	0	0	0
- Div.(incl. buyback & taxes)	56	83	83	83	83
+ Equity raised	0	3,312	0	0	0
+ Debt raised	1,327	402	245	904	275
- Fin investments	0	0	0	0	0
- Net int. expense + Misc.	899	1,013	983	966	1,123
Net cash-flow	-495	-71	-104	53	30

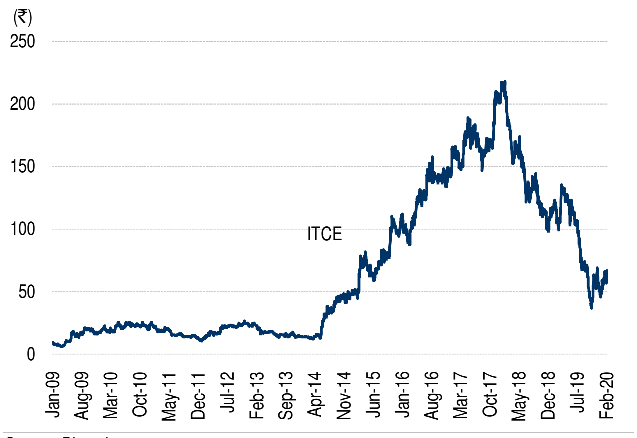
*Source: Company, Anand Rathi Research   * 15 months; annualised where applicable*

Fig 4 – Ratio analysis

Year-end: Mar	CY17	FY19*	FY20e	FY21e	FY22e
P/E (x)	35.7	34.5	15.3	9.0	8.0
EV / EBITDA (x)	13.8	10.6	5.3	4.6	4.2
EV / Sales (x)	1.8	1.1	0.5	0.5	0.4
P/B (x)	5.5	2.2	1.0	0.9	0.8
RoE (%)	16.2	8.0	6.6	10.4	10.6
RoCE (%)	24.7	15.6	12.3	14.5	15.1
RoIC (%)	20.3	10.4	8.7	11.3	11.6
DPS (₹ / sh)	0.3	0.4	0.4	0.4	0.4
Dividend yield (%)	0.1	0.3	0.6	0.6	0.6
Dividend payout (%) - incl. DDT	5.9	12.6	12.0	7.0	6.3
Net debt / equity (x)	0.6	0.4	0.4	0.5	0.4
Receivables (days)	42	63	62	60	60
Inventory (days)	28	35	30	31	31
Payables (days)	110	80	76	77	77
CFO : PAT %	84.9	-183.1	342.1	115.1	162.3

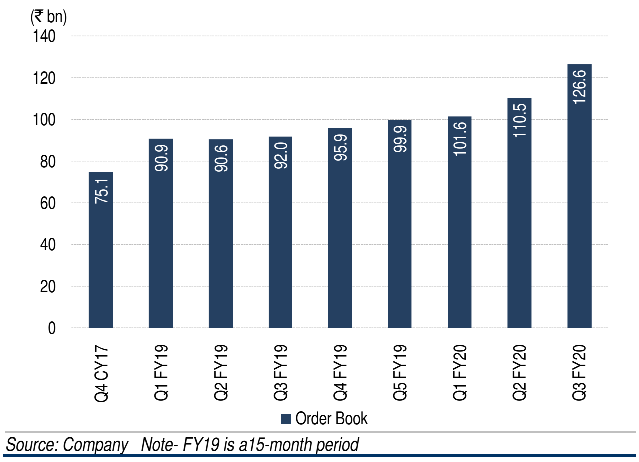
*Source: Company, Anand Rathi Research   * 15 months; annualised where applicable*

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – End-Q3 FY20 OB @ ~₹127bn, a lifetime high



Source: Company   Note- FY19 is a15-month period

Result / Concall highlights

- **Revenue growth, at ~10% y/y; could have been better.** The ~10% y/y growth in revenue from operations lagged even management's internal estimate. Management attributes slow growth to the delay in starting electro-mechanical work at the Udangudi project (client-driven delay), and to the fairly recently added orders (sites in the process of being mobilised).
  - As with the last two quarters, the standalone entity, with ~15% y/y higher revenues, was yet again the key growth driver.
  - Consolidated revenue growth lagged standalone operations growth by ~5%, implying the subsidiaries saw revenue (~₹1.8bn, derived) decline ~1% y/y.
  - The subsidiaries' operations chiefly comprise the Bengaluru elevated metro-rail project and an irrigation project in the Telengana. Of the two, the irrigation project has been moving slow, whereas the Bengaluru project, after a short blip in the recent past, is doing well now.

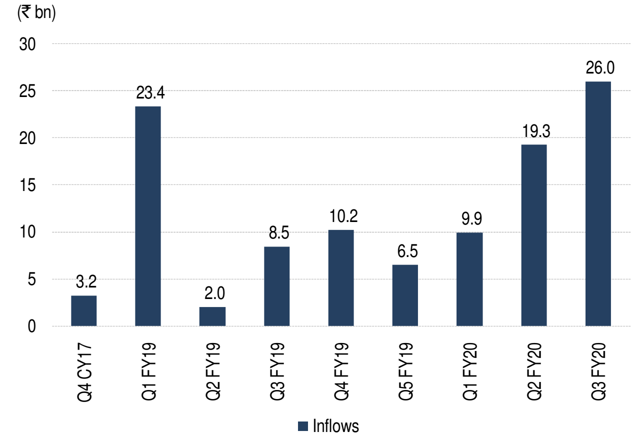
Fig 7 – Financial highlights*

(₹m)	Q4 CY17	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q5 FY19	Q1 FY20	Q2 FY20	Q3 FY20	% y/y	% q/q
Sales	5,749	6,547	6,529	6,204	6,405	5,899	7,046	7,091	7,073	*10.4*	*-0.3*
EBITDA	786	611	862	781	853	-4	745	729	640	*-24.9*	*-12.2*
EBITDA margin (%)	*13.7*	*9.3*	*13.2*	*12.6*	*13.3*	*-0.1*	*10.6*	*10.3*	*9.1*	*-427bps*	*-123bps*
Interest	218	231	223	244	267	279	309	315	328	*22.9*	*4.0*
Depreciation	165	147	185	159	146	186	232	237	243	*65.9*	*2.5*
Other income	151	85	57	61	32	74	17	11	10	*-69.4*	*-10.9*
Exceptional item	218	-	-	-	-	-	-	-	-	-	-
PBT	335	318	512	439	473	-395	220	188	80	*-83.1*	*-57.5*
Tax	167	44	183	161	155	-30	111	22	42	*-72.8*	*89.5*
PAT	168	275	329	278	317	-366	109	166	38	*-88.1*	*-77.3*
Minority +JV / Asso.	10	-6	-43	-5	27	13	57	51	65	*142.7*	*27.2*
Reported PAT	178	268	286	273	344	-353	167	217	103	*-70.2*	*-52.7*
Adj. PAT	396	268	286	273	344	-353	167	217	103	*-70.2*	*-52.7*

Source: Company **FY19 is a 15-month period, Q3 FY19 is comparable to Q2 FY20*

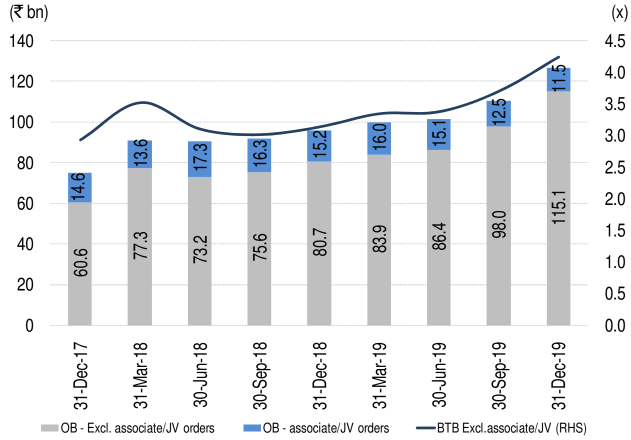
- **Margin compression, largely a result of the Bengaluru eleveted metro-rail.** The significant contribution from the zero-margin (post de-scoping) Bengaluru elevated metro-rail is the chief reason for the sharp ~427bp margin compression to ~9.1%. In the corresponding quarter last year, the project was still margin-accretive.
  - Besides the Bengaluru elevated metro-rail project, the contribution from some of the new orders where the margin recognition threshold has not yet been attained impacted the margins.
  - With three of the four Bengaluru elevated metro-rail packages expected to be done with by Jul'20, and the last by Dec'20 (provided balance work front is made available), the drag is likely to fade sooner than later.

Fig 8 – 9M inflows: ~₹55bn; excl. L1 of ~₹3.5bn



Source: Company

Fig 9 – End-Q3 FY20 OB ~₹127bn; ~₹130bn incl. L1



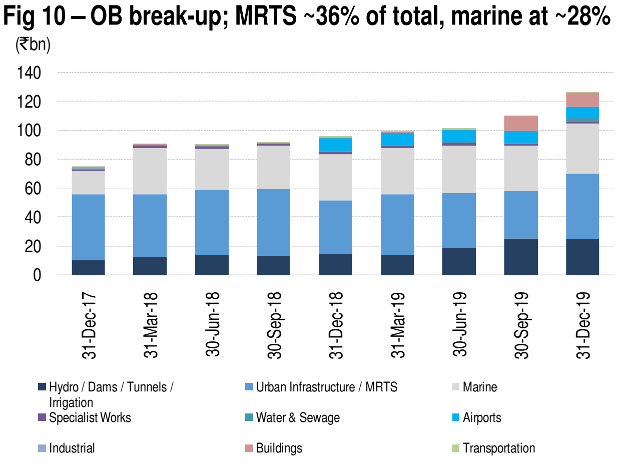
Source: Company

- **A sharp y/y cut in consolidated earnings.** Lower operating profitability along with higher finance costs (up ~23% y/y) and depreciation (up ~66% y/y) led to the ~70% y/y earnings decline, to ~₹103m. The higher effective tax rate (~53%), too, was a drag on the consolidated profitability.
  - Higher depreciation is attributable to a mix of the change in accounting treatment for assets-taken-on-lease, and capex incurred earlier.
  - Higher finance cost despite lower debt is on account of interest on the higher balance of mobilisation advances (advances up ~₹1.5bn over 9M FY20) and higher BG/LC charges (on the higher order backlog).

Inflows / Order backlog

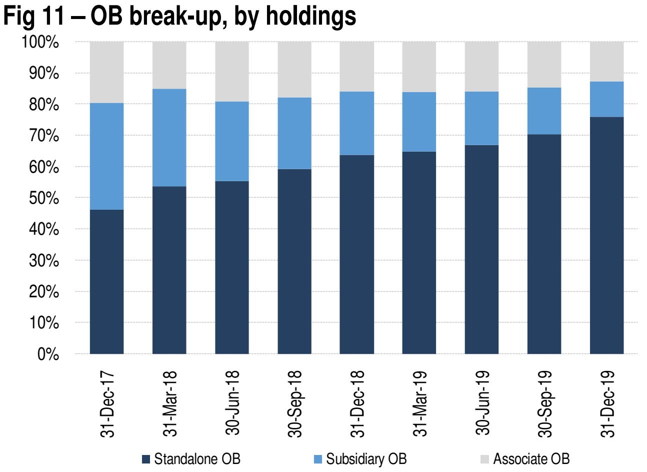
- **Strong year-to-date inflows.** ~₹26bn of Q3 inflows, followed by the strong H1 inflows of ~₹29bn, enabled the company's ytd inflows of ~₹55bn. With this, ytd inflows have already exceeded the 15-month FY19 addition of ~₹51bn. With ~₹3.5bn of L1 positions, FY20 is set to become ITD's best year in terms of accretion.

Fig 10 – OB break-up; MRTS ~36% of total, marine at ~28%



Source: Company

Fig 11 – OB break-up, by holdings



Source: Company

- With inflows exceeding orders executed in 9M by a significant margin, the company closed Q3 FY20 with the order backlog (incl. JVs/ associates) at a lifetime high of ~₹127bn.
  - Of this, an estimated ~₹12bn pertains to the JVs/associates, primarily the Mumbai metro-rail works of ~₹9bn. The order backlog of ~₹115bn (excl. the share of JVs/associates) implies revenue assurance of ~4.2x.

Opportunities in sight / Competitive intensity

- Management eyes a prospective bid-pipeline of ~₹120bn, expected to materialise in the near term. Without offering any sector-wise break-up, major prospects are:
  - The company has submitted bids for three of the four JNP (Nhava Sheva) tenders: for supply of raw materials, ground strengthening and construction of a jetty. These bids could provide a potential EPC opportunity of ~₹35bn. There are three to four bidders and no restriction clause (implying a single bidder can bag all contracts). Management hopes to bag 1-2 projects, having previously delivered quality works to the authority. Discussions are underway.
  - On the sewerage front, it eyes six projects in Mumbai, each of ~₹24bn-25bn. These are composite orders. It has already submitted its bid for a project, expected to be opened this month.
  - It also sees potential for works in Sri Lanka (a ~₹10bn opportunity), a ~₹4bn Kolkata High Court project, jobs in Kochi, and Seabird Karwar among others.
  - On its recent interest in the buildings segment, the company indicates it is primarily eyeing orders only in hospitals, educational institutes (IIMs/IITs), airports and other such institutional projects.

Guidance

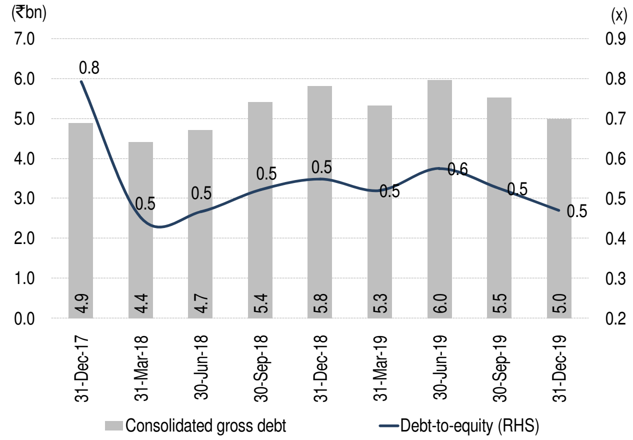
- Management hasn't explicity provided any revenue guidance for FY20 besides suggesting that revenue growth would be healthy. For FY21, having commenced execution on all of the recently-acquired projects, management sees ~₹40bn of revenues as possible.
- With the strong ~₹55bn 9M inflows (already ahead of 15M FY19) and a sound L1 position of ~₹3.5bn, management seems confident of closing FY20 with ₹55bn+ inflows. For FY21, it has guided to inflows of ~₹70bn-80bn.
- Having incurred ~₹0.7bn 9M FY20 capex, the management doesn't envisage material capex in Q4 beyond ~₹0.1bn-0.2bn. For FY21, it intends to incur similar capex as in FY20, at ~₹0.8bn.
- With some past orders yet a part of the order backlog, management does not envisage blended margins in the immedaite future. But, expecting most of these past orders to be complete by FY21, it does not rule out margins starting to expand from FY22.

Balance sheet

- Even with ~10% y/y growth in consolidated revenue, consolidated net debt was down ~₹0.2bn q/q to ~₹4.4bn. The lower net debt is almost entirely owing to the Bengaluru elevated metro-rail SPV, as standalone net debt was largely flat.

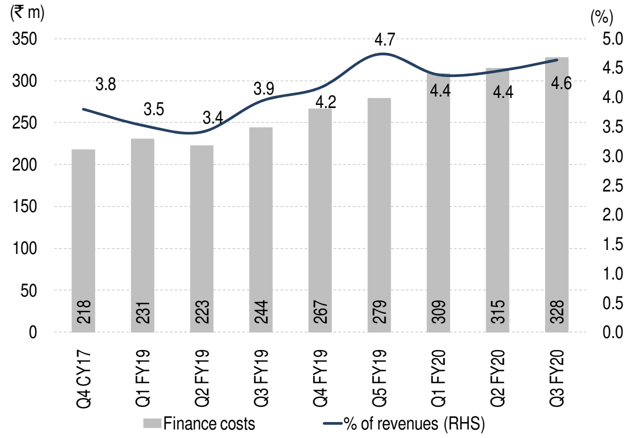
- We estimate the gross debt for the Bengaluru SPV to have come down by ~₹0.7bn, to ~₹2.2bn. Interaction with the management suggests that gross debt is now ~₹2bn, implying a further reduction of ~₹0.2bn after the close of Q3.
- The Bengaluru SPV-driven lower net debt is heartening as there were looming concerns regarding the SPV's ability to generate cash-flows after the reduced scope (and, resultantly, zero margins), and effect repayments.

Fig 12 – Debt down, due to Bengaluru metro-rail SPV



Source: Company

Fig 13 – Finance cost, as % of sales, steady



Source: Company

- ITD is not an exception to the general trend of a lengthened working-capital cycle for most (if not, for all). Ideally the operations should have led to even lower consolidated net debt, but the working-capital cycle lengthening from 105-110 days at end-Q2 to 115-120 at end-Q3 arrrested any reduction in net debt. Management does not see it to rise further; rather any lumpy receipt of mobilisation advances could help it come down in the short term.
- On 31st Dec'20, receivables were ~₹4.8bn (~₹4.4bn on 31st Mar'19), unbilled revenues ~₹8bn (up from ~₹6bn at end-FY19), inventories ~₹2bn-2.5bn, payables funded ~₹6bn (~₹5.6bn at end-FY19), and mobilisation advances were ~₹5bn (up from ~₹3.5bn on 31st Mar'19).
- From the new orders, management has yet to realise mobilisation advances of ~₹3bn-3.5bn, which would help it fund a part of its needs. Finance costs for these are mostly linked to the bank rate, plus ~200bps.
- In 9M FY20, the company incurred capex of ~₹0.65bn, and expects to incur another ~₹0.1bn-0.2bn in Q4. Notwithstanding the strong order accretion, management does not see its capex spend to change materially as it sees its existing equipment bank to be good for a large part of the new orders added. On the existing orders, it envisages capex at ~₹0.75-0.8bn for the next year as well.
- On its funding limits, ITD has fund-based limits of ₹6bn-6.5bn. Of which, ~50% has been utilised. Regarding non-fund-based limits, of the total ~₹33bn, ~75% has been utilised. Besides, it has separate limits at the various JVs/assocociates.

Key project update

- **The Kolkata underground metro-rail.** The project has recently received a favourable ruling from the Kolkata High Court, allowing it to re-commence tunnelling at the project. It expects to recommence this shortly. Execution was not on a complete halt as ancillary work was underway even while the tunneling work was on hold.

- Of the ~₹17bn project, ~₹5bn is pending. As the company has access to only one TBM at the project, work is expected to take some time, pegged at ~20 months.
- Management reiterates that the contingency buffer, insurance coverage (contractor policy, third-party liability coverage, special policy for TBMs) all combined, would suffice to cover any additional costs. Thus, the project is unlikely to trim overall margins.
- Before any claims are filed for re-imbursement of rehabilitation expenses for the displaced people, it would try to discuss matters with the client.

- **Bengaluru elevated metro-rail.** Having booked revenue of ~₹1.8bn in Q3, at end-Q3 the project's pending backlog was pegged at ~₹8.5bn. Management maintains its target of completing three of the four packages by Jul'20. The fourth is likely to take a little longer (completion expected by Dec'20) as the full work front has not yet been made available. Managment maintains that all potential losses owing to the change in scope have already been accounted for.
- **The Mumbai underground-rail.** Cumulatively, ~44% progress has already been attained, and the project is contributing positively in the earnings.
- **The Nagpur elevated metro-rail.** Construction is on in full swing and the company has already completed five elevated stations. It targets a May'20 completion for the project.
- **The Udangudi project.** Of the ~₹17bn marine project, works of ~₹12bn are pending. Currently, it is billing ~₹0.3bn a month on the project. It had expected to book higher revenues, wanting to commence execution on the electro-mechanical works. Client-approval delays regarding such works curbed revenues. It now expects to bill ~₹0.5bn-0.6bn a month.
- **IRCON tunnelling works.** These projects (for a rail line to Sikkim) are to be executed over three years. Of three packages, tunnelling works have already comecnced at two and approach works are on-going for the third.
- **Bengaluru underground metro-rail**. The ~₹17.7bn recently bagged underground metro-rail project, mangement said, would need insignificant capex, as the two old but refurbished TBMs are already available with it. Management expects to break ground at the project in coming months with tunnelling expected to start by Sep-Oct'20.
- **Myanmar order from Adani Yangong International Terminal.** A ~₹5.6bn order received in Q3 FY20, management envisages commencing execution at the project in Apr'20 and is currently in the process of mobilising the site. This is a fixed-price, fixed-time contract with 20 months as the execution timeline.

Estimates revision, Valuation

To account for some of the incidental costs / initial resource mobilising cost toward some of the recently bagged orders that have yet to start contributing, we lower our margin estimates. Besides, the lower share of the marine margin in the order backlog make us prune our margins. Estimates have also been adjusted for the significantly higher tax rate in Q3. Resultantly, our FY20e earnings are ~21% lower, and ~7% for FY21. We introduce FY22e revenues of ~₹38bn, EBITDA of ~₹3.9bn and adjusted PAT of ~₹1.3bn.

On our new estimates, and on rolling forward to FY22, our target price has been raised from ₹74 a share earlier to ₹77 now. The TP has been derived using 10x FY21e EPS of ~₹7.7.

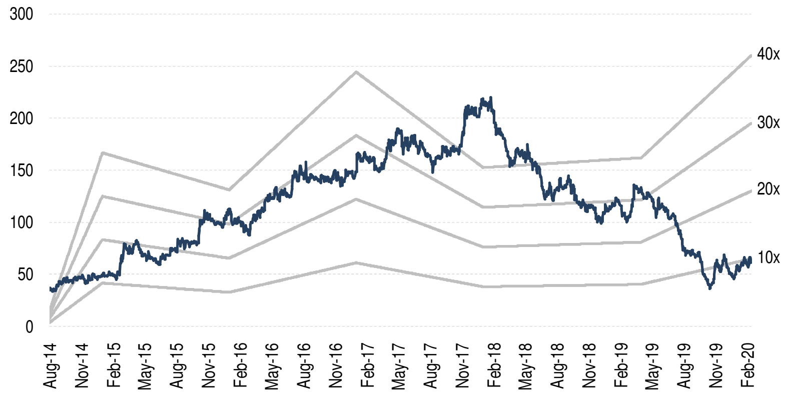
Fig 14 – Change in estimates

(₹ m)	Original Estimates		Revised Estimates		Change (%)	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Revenue	28,915	33,874	28,725	34,256	-0.7	1.1
EBITDA	3,048	3,640	2,867	3,477	-5.9	-4.5
EPS (₹)	5.1	7.4	4.0	6.9	-21.0	-6.5

Source: Anand Rathi Research

On our revised estimates, the stock trades at PER of 9x FY20e, 8x FY21e and 6x FY22e.

Fig 15 – PE band



Source: Bloomberg, Anand Rathi Research

Risk

- Any markedly slower-than-expected execution.

Appendix

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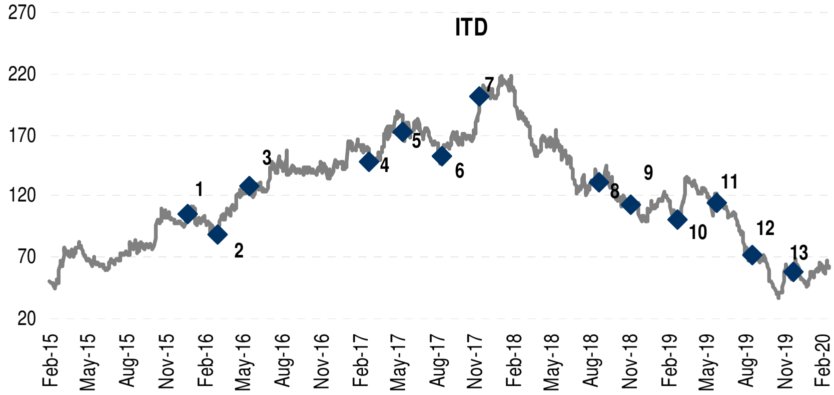

	Date	Rating	TP (₹)	Share Price (₹)
1	22-Dec-15	Buy	136	104
2	29-Feb-16	Buy	138	88
3	16-May-16	Buy	161	133
4	22-Feb-17	Sell	136	161
5	12-May-17	Sell	154	182
6	10-Aug-17	Hold	169	148
7	09-Nov-17	Hold	215	203
8	20-Aug-18	Buy	190	132
9	02-Nov-18	Buy	173	114
10	18-Feb-19	Buy	171	103
11	25-May-19	Hold	130	114
12	16-Aug-19	Buy	103	71
13	19-Nov-19	Buy	74	55

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