20 June 2020

ITD Cementation, India

Labour, key to harnessing the OB; retaining a Buy

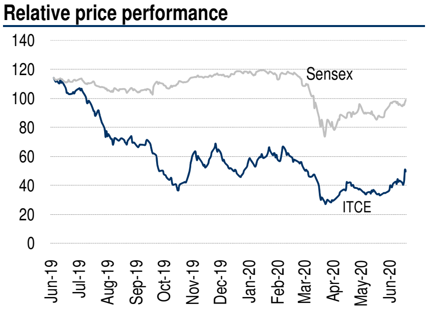
Rating: **Buy**
Target Price: ₹63
Share Price: ₹50

Key data	ITCE IN / ITCM.BO
52-week high / low	₹111 / 26
Sensex / Nifty	34732 / 10244
3-m average volume	$0.2m
Market cap	₹8.5bn / $112m
Shares outstanding	172m

Shareholding pattern (%)	Mar-20	Dec-19	Sep-19
Promoters	46.6	46.6	46.6
- of which, Pledged	-	-	-
Free float	53.4	53.4	53.4
- Foreign institutions	6.8	7.3	5.2
- Domestic institutions	27.5	27.0	30.8
- Public	19.1	19.1	17.4

Estimates revision (%)	FY21e	FY22e
Sales	-23.2	-5.6
EBITDA	-27.3	-4.6
EPS	-56.9	-10.0

Relative price performance



Source: Bloomberg

The short-term disruption notwithstanding (on the continuing Covid-19 impact), strong revenue assurance and significantly de-levered balance sheet mean ITDC's mid- to long-term prospects are bright. Also, past projects (with adverse developments) gradually making way for recently-added orders make a case for better performance ahead. We retain our Buy rating as the strong OB and de-levered balance sheet would help weather Covid-riddled challenges.

Covid'19-hitch. Across its operational work-sites, the company claims a blended efficiency of ~50%. Labour returning would be key to it harnessing the potential its order-book holds. The coming months are expected to be better than the last, with significant recovery expected by Q3 (most of the workforce expected by Aug'20) and near normalcy by Q4.

Net debt shrinks. The ~₹2.5bn q/q and ~₹2.3bn y/y lower net debt (at ~₹1.9bn on 31st Mar'20) appears largely a function of the drawdown of mobilisation advances at some of its recently-started projects, and gradually declining debt for the Bengaluru elevated metro-rail SPV. Net D/E of 0.2x is reassuring, and could come in handy to deal with any Covid-driven issues.

Inflows at single-year best; OB strength yet to be harnessed. The strong addition of ~₹56bn helped ITDC close FY20 with a new year-end high OB of ~₹117bn (~₹40bn-50bn of this yet to commence). Prospects too are bright with an immediate bid pipeline of over ₹200bn, but the fruition could take some time due to the Covid-19. Nevertheless, the existing OB is good, and means any near-term slow awarding is not much of a concern.

Valuations. Adjusting for the Covid-impact, FY21e earnings are ~57% lower (~10% for FY22). On such lowered estimates and pruned multiple (9x FY22 EPS, against 10x earlier), our target price stands revised to ₹63 (from ₹77 earlier). At present, the stock (excl. investments) trades at 7.1x FY22e EPS. **Risk:** Prolonged Covid-19 impact.

Key financials (YE Mar)	CY17	FY19*	FY20P	FY21e	FY22e
Sales (₹ m)	20,605	31,651	28,607	26,294	36,169
Net profit (₹ m)	947	819	841	509	1,196
EPS (₹)	6.1	3.8	4.9	3.0	7.0
Growth (%)	86.2	-50.0	52.8	-39.5	134.8
PE (x)	35.7	34.5	6.1	16.7	7.1
EV / EBITDA (x)	13.8	10.6	2.4	4.8	3.6
PBV (x)	5.5	2.2	0.5	0.8	0.7
RoE (%)	16.2	8.0	8.1	4.7	10.4
RoCE (%)	24.7	15.6	13.2	10.3	15.9
Net debt / equity (x)	0.6	0.4	0.2	0.3	0.4

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

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Quick Glance – Financials and Valuations (consolidated)

Fig 1 – Income statement (₹ m)

Year-end: Mar	CY17	FY19*	FY20P	FY21e	FY22e
Order backlog	75,132	99,926	1,17,431	1,24,560	1,30,244
Order inflow	32,007	50,516	55,571	38,035	46,908
Net revenues	**20,605**	**31,651**	**28,607**	**26,294**	**36,169**
Growth (%)	*-29.9*	*22.9*	*14.3*	*-8.1*	*37.6*
Direct costs	15,753	26,262	23,751	21,871	30,020
SG&A	2,138	2,217	1,900	1,893	2,423
EBITDA	**2,715**	**3,171**	**2,956**	**2,529**	**3,726**
EBITDA margins (%)	*13.2*	*10.0*	*10.3*	*9.6*	*10.3*
Depreciation	577	824	965	1,026	1,099
Other income	353	243	46	87	53
Interest expenses	876	1,243	1,305	1,298	1,500
PBT	1,614	1,346	732	293	1,180
Effective tax rate (%)	*32.7*	*38.1*	*22.3*	*25.6*	*25.6*
+ Associates / (Minorities)	-139	-14	272	291	318
Net income	728	819	432	509	1,196
Adjusted income	947	819	841	509	1,196
WANS	155	172	172	172	172
FDEPS (₹ / sh)	6.1	3.8	4.9	3.0	7.0

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	CY17	FY19*	FY20P	FY21e	FY22e
Share capital	155	172	172	172	172
Net worth	6,173	10,208	10,526	10,952	12,065
Debt	4,886	5,323	4,739	4,593	6,154
Minority interest	9	22	28	28	28
DTL / (Assets)	-17	-52	-20	-20	-20
Capital employed	**11,051**	**15,501**	**15,273**	**15,553**	**18,227**
Net tangible assets	4,618	5,217	4,914	4,877	4,999
Net intangible assets	0	77	1,324	1,304	1,283
Goodwill	0	0	0	0	0
CWIP (tang. & intang.)	385	73	49	50	50
Investments (strategic)	6	6	6	6	6
Investments (financial)	0	0	0	0	0
Current assets (ex cash)	17,764	19,460	21,930	21,085	26,934
Cash	1,158	1,087	2,814	1,054	1,075
Current liabilities	12,880	10,420	15,765	12,823	16,120
Working capital	4,885	9,041	6,166	8,262	10,814
Capital deployed	**11,051**	**15,501**	**15,273**	**15,553**	**18,227**
Contingent liabilities	24,003	17,340	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	CY17	FY19*	FY20P	FY21e	FY22e
PBT+ Net interest expense	2,137	2,346	1,991	1,503	2,627
+ Non-cash items	577	824	965	1,026	1,099
Oper. prof. before WC	2,715	3,171	2,956	2,529	3,726
- Incr. / (decr.) in WC	1,382	4,156	-2,875	2,097	2,552
Others incl. taxes	528	513	163	75	302
Operating cash-flow	804	-1,499	5,668	358	872
- Capex (tang. + intang.)	1,670	1,190	1,884	970	1,200
Free cash-flow	-866	-2,688	3,784	-613	-328
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	-552	-146	1,561
- Fin investments	0	0	0	0	0
- Net int. expense + Misc.	899	1,013	1,421	919	1,129
Net cash-flow	-495	-71	1,728	-1,760	21

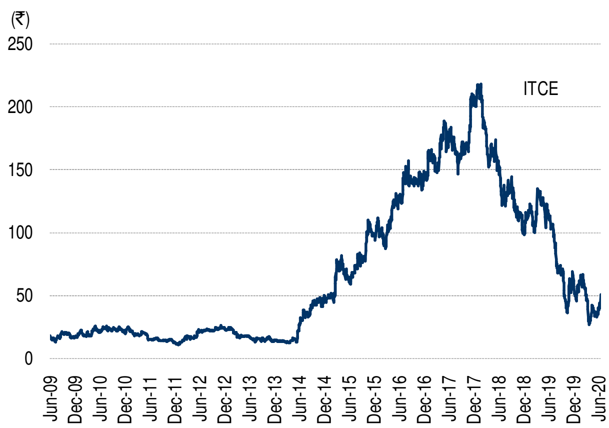
*Source: Company, Anand Rathi Research * 15 months; annualised where applicable*

Fig 4 – Ratio analysis

Year-end: Mar	CY17	FY19*	FY20P	FY21e	FY22e
P/E (x)	35.7	34.5	6.1	16.7	7.1
EV / EBITDA (x)	13.8	10.6	2.4	4.8	3.6
EV / Sales (x)	1.8	1.1	0.2	0.5	0.4
P/B (x)	5.5	2.2	0.5	0.8	0.7
RoE (%)	16.2	8.0	8.1	4.7	10.4
RoCE (%)	24.7	15.6	13.2	10.3	15.9
RoIC (%)	20.3	10.4	14.0	8.5	12.2
DPS (₹ / sh)	0.3	0.4	0.4	0.4	0.4
Dividend yield (%)	0.1	0.3	1.3	0.8	0.8
Dividend payout (%) - incl. DDT	5.9	12.6	9.9	16.3	6.9
Net debt / equity (x)	0.6	0.4	0.2	0.3	0.4
Receivables (days)	42	63	75	75	65
Inventory (days)	28	35	37	35	35
Payables (days)	110	80	84	81	75
CFO : PAT %	84.9	-183.1	673.9	70.2	72.9

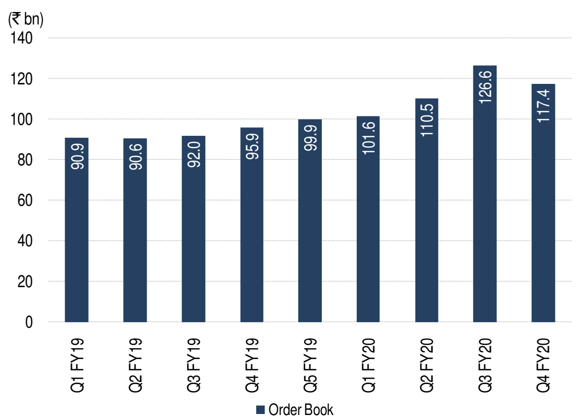
*Source: Company, Anand Rathi Research * 15 months; annualised where applicable*

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – End- FY20 OB at ~₹117bn



Source: Company Note- FY19 is a15-month period

Result / Concall highlights

- **Covid-struck, but revenue growth still healthy.** The low base along with the augmented order backlog came together to help ITDC record ~25% y/y revenue growth in Q4 FY20. The sequential ~5% growth reveals that the pace of execution was healthy, as it comes against the backdrop of the Covid-led disruption toward the second half of Mar'20. Had it not been for the Covid-19 pandemic, y/y as well as q/q revenue growth would have been better.
  - Revenue growth for the standalone entity lagged consolidated revenue growth, implying subsidiaries (~25% share in Q4, revenues up ~36% y/y) led from the front in the quarter to help deliver strong y/y growth, unlike the last two quarters where the standalone entity was the prime growth driver.
  - Meaningful y/y growth for the subsidiaries could largely be attributed to the greater contribution from the Bengaluru elevated metro-rail project (weak contribution in Q4 FY19 on adverse developments) and the irrigation project in Telangana.

Fig 7 – Consolidated financial highlights*

(₹m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q5 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	6,547	6,529	6,204	6,405	5,899	7,046	7,091	7,073	7,396	*25.4*	*4.6*
EBITDA	611	862	781	853	-4	745	729	640	842	-	*31.4*
EBITDA margins (%)	*9.3*	*13.2*	*12.6*	*13.3*	*-0.1*	*10.6*	*10.3*	*9.1*	*11.4*	-	*233bps*
Interest	231	223	244	267	279	309	315	328	353	*26.5*	*7.8*
Depreciation	147	185	159	146	186	232	237	243	253	*35.6*	*4.2*
Other income	85	57	61	32	74	17	11	10	8	*-89.0*	*-17.9*
Exceptional item	-	-	-	-	-	-	-	-	409	-	-
PBT	318	512	439	473	-395	220	188	80	-166	-	*-307.6*
Tax	44	183	161	155	-30	111	22	42	-12	-	*-129.3*
PAT	275	329	278	317	-366	109	166	38	-153	-	*-507.8*
Minority +JV / Asso.	-6	-43	-5	27	13	57	51	65	99	*672.9*	*51.9*
Reported PAT	268	286	273	344	-353	167	217	103	-55	-	*-153.2*
Adj. PAT	268	286	273	344	-353	167	217	103	355	-	*245.5*

*Source: Company *FY19 is a 15-month period, Q4 FY20 is comparable to Q5 FY19*

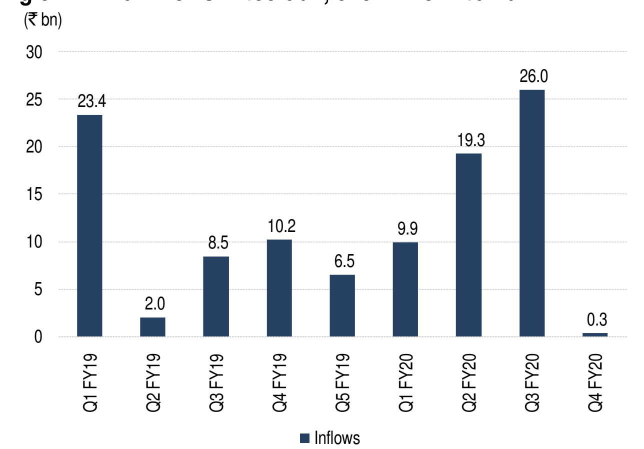
- **EBITDA margin, best of the last five quarters.** The ~11.4% EBITDA margin is not comparable y/y as the year-ago quarter included provisioning of ~₹0.4bn for foreseeable losses as well as reversal of profits booked in earlier peroids for the Bengaluru elevated metro-rail project. Even adjusted, the EBITDA margin is an improvement on account of the changing project mix. Sequentially, the margin expanded ~233bps, mostly attributable to lower employee cost (~10.4% of revenue, vs. ~13% for Q4 FY19).
- **Impairments impact profitability.** As a prudent practice, during Q4 managment provided for ~₹0.4bn of receivables long due from the beleagured IL&FS Group. As this exceptional item exceeded PBT from recurring operations, there was a net loss of ~₹55m in the quarter. Had it not been for a ~₹12m net tax reversal, the loss would have been slightly higher. The corresponding quarter last year, too, had suffered a net loss (of ₹353m), because of the provisioning for foreseeable losses and reversal of prior period profits at the Bengaluru elevated metro-rail.

- Receivables were provided for in the quarter realising that there is not much progress on recovery efforts, and no significant change in IL&FS' state of affairs.

Inflows / Order backlog

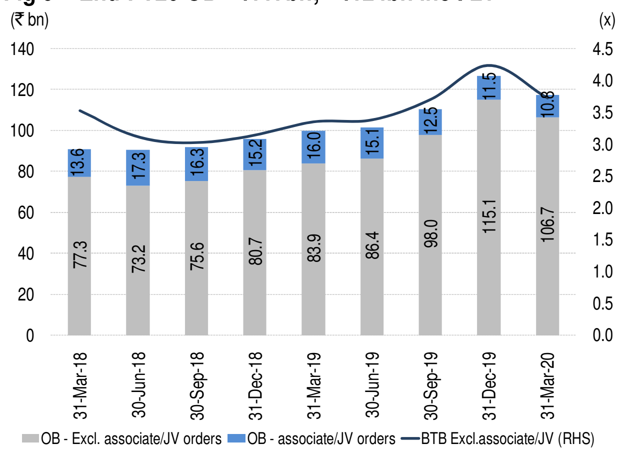
- Despite Q4 seeing only ~₹0.3bn of inflows (primarily piling), strong addition in the first 9M took the company to its best single year order addition, of ~₹55.6bn. This is even better than its previous single financial year best of ~₹51bn, though that was a 15-month financial year (FY19).

Fig 8 – FY20 inflows: ~₹55.6bn; excl. L1 of ~₹6.7bn



Source: Company

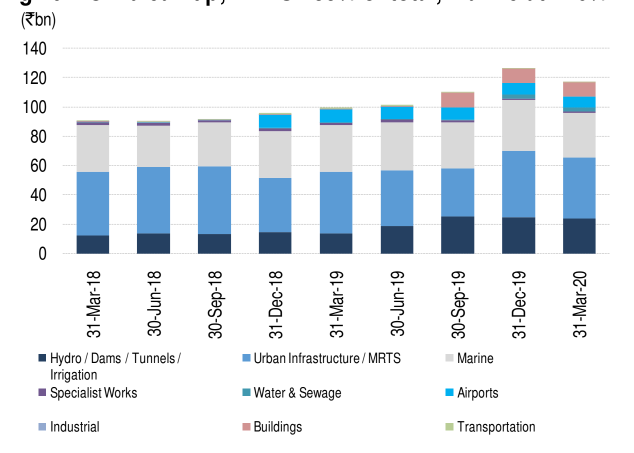
Fig 9 – End-FY20 OB ~₹117bn; ~₹124bn incl. L1



Source: Company

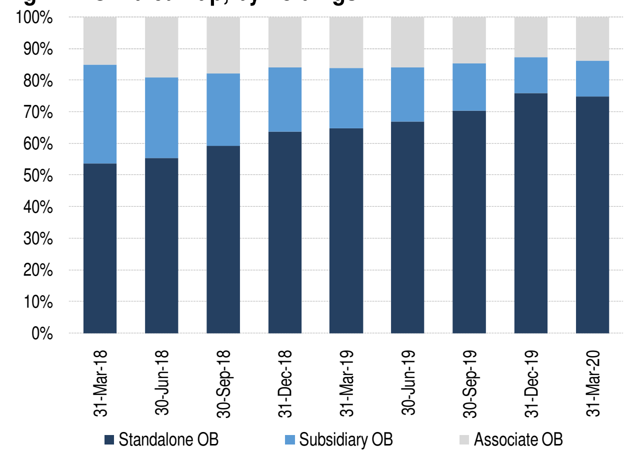
- The healthy Q4 FY20 execution, not bolstered by commensurate inflows, led to the OB declining sequentially. Consequently, the end-FY20 OB (incl. JVs/Associates) was down ~₹9bn q/q to ~₹117bn.
  - Of this, an estimated ~₹11bn pertains to the JVs/Associates, primarily the Mumbai metro-rail works of ~₹8.3bn. The order backlog of ~₹107bn (excl. the share of JVs/Associates) implies revenue assurance of ~3.7x on FY20 consolidated revenues.

Fig 10 – OB break-up; MRTS ~35% of total, marine at ~26%



Source: Company

Fig 11 – OB break-up, by holdings



Source: Company

- Furthermore, the company holds L1 status in two orders totalling ~₹6.7bn. Incl. these, the OB (excl. Associate/JV orders) rises to ~₹113bn, and the book-to-bill improves to ~4x.
- Of the total order backlog, orders of ~₹40bn-50bn have yet to start contributing meaningfully or have yet to commence.

Commencement of work/any better pace of execution would give a fillip to revenue as well as earnings performances.

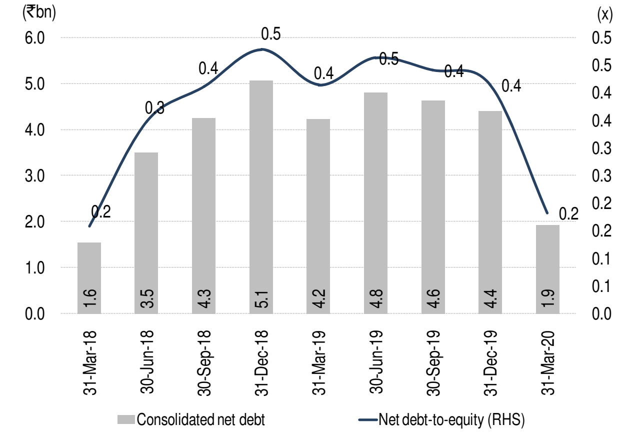
Opportunities in sight

- The company continues to seek growth opportunities, and has good avenues to add orders. However, it was non-committal on its targeted inflows as it feels that the continuing Covid-impact could delay the awarding process.
- It currently eyes a healthy bid-pipeline (incl. those tenders where it awaits the opening of its bids) across its major segments of operations.
  - **Underground metro-rail.** The company sees opportunities of ~₹100bn-120bn in underground metro-rail, largely from the NCRTC (developing the Delhi-Meerut RRTS), DMRC (developing Phase-IV of the Delhi metro-rail) and RVNL.
  - **Elevated structures.** Among the elevated structures, it is not too keen to look at elevated metro-rail projects (owing to the recent experience with the Bengaluru elevated one) but sees elevated roads/road projects with a larger component of elevated structures as worth a try. Of its prospective pipeline, such orders constitute ~₹50bn-60bn.
  - **Marine.** The marine segment contributes ~₹50bn-60bn to the bid-pipeline. This includes its bids submitted 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 cumulative ~₹35bn-40bn EPC opportunity. There are three to four bidders and it had earlier said there was no restriction clause (implying a single bidder could bag all the contracts). Management expects the bids to be opened in the next two months, and doesn't expect the project to be deferred.
  - **Water & Sewerage.** On the sewerage front, it continues to eye six projects in Mumbai, each of ~₹24bn-25bn. Of these, tenders for five have been floated and management intends to bid for them.
- It higlights that the Covid'19-pandemic would require it to spend more on health and hygeine measures at the worksite (than it used to do earlier). Thus, any fresh bids that it places hereafter would need it to bake in these additional costs in estimates.

Balance sheet

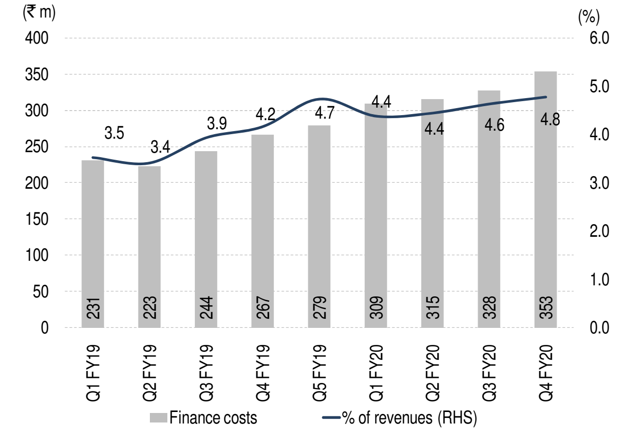
- **Net debt shrinks.** Strong positive CFO (largely aided by mobilisation advances) more than sufficed to meet capex as well as finance outlays. Consequently, net debt was down ~₹2.3bn y/y, ~₹2.5bn q/q, to ~₹1.9bn at end-FY20. Net debt-to-equity was an appealing ~0.2x, down from ~0.4x a year as well as a quarter ago.
  - End-Mar'20 gross debt of ~₹4.7bn (down ~₹0.25bn q/q, ~₹0.6bn y/y) comprised ~₹1.5bn of subsidiaries' debt (mostly the Bengaluru elevated metro-rail); the balance is attributable to the standalone entity.
  - Management pegged debt for the Bengaluru metro-rail SPV at ~₹1.5bn, down from ~₹2bn a quarter ago. With most of the project due to be completed in FY21, debt is likely to continue its downtrend (having declined for three quarters now).

Fig 12 – Net debt down



Source: Company

Fig 13 – Finance cost, as % of sales, up on higher mob. adv.



Source: Company

- On its comfortable liquidity position, the company did not avail of the moratorium on its loans during the scheme's first round (Mar-May'20). It has no such plans for the second round (Jun-Aug'20).

■ We estimate the working-capital cycle to have contracted from 130 days at end-FY19 (a 15-month peroid) to 79 days now. Most of this improvement came through during H2, as the end-Sep'19 working-capital cycle too was an elongated 121 days.

- The significantly compressed working-capital cycle appears largely the result of the receipt of mobilisation advances toward some of the recently added orders.
- With this strong a y/y improvement in the working-capital cycle, reported FY20 cash-flow generation from operations, too, was a strong ~₹4.8bn, against a negative ~₹1.3bn the previous year.
- The positive CFO during the year was partly utilised to fund net capex (~₹0.9bn), to meet finance outlays (~₹1.1bn) and lease obligations (~₹0.3bn). A large part of the balance is reflected in higher cash and equivalents.

■ In FY20, the company incurred gross capex of ~₹1.2bn, ahead of its earlier guided-to capex of ~₹0.9bn. Keeping the current circumstances in mind, management seeks to incur capex of ~₹0.7bn-0.8bn in FY21 for some of the recently bagged projects, but this again is contingent upon the pace of execution. Also, as it intends to conserve cash and, hence, may attempt to undershoot this guidance.

■ On its funding limits, ITDC has non-fund-based limits of ~₹33bn, of which ~80-85% has been utilised (against ~75% the quarter prior). Besides, it has separate limits at the various JVs/Associates.

Key project update

■ **The Kolkata underground metro-rail.** Having received the necessary approvals from the Kolkata High Court allowing it to re-commence tunnelling at the project, management re-commenced work on 18th Feb'20, but had to stop again owing to the Covid-riddled situation. It expects to re-recommence works at the project shortly.

■ **The Bengaluru elevated metro-rail.** The project has already attained ~80% progress, and managment intends to complete three of the four packages by end-FY21 (earlier targeted completion: Jul'20) and the last package by mid-CY21. On 31st Mar'20, unexecuted revenue potential was ~₹7.5bn.

- **The Mumbai underground metro-rail.** Cumulatively, ~50% progress has already been attained. Management reported that execution in FY21 has been struck by Covid-19. The project is contributing to earnings and the contribution is expected to rise further.
- **The Nagpur elevated metro-rail.** Construction is nearing the final stages at the project, it having attained ~95% progress. Management aims to complete this project by the year-end.
- **The Udangudi project.** On the ~₹17bn marine project, managemnet indicated that work is progressing steadily and it has already attained ~24% progress here.
- **Myanmar order from Adani Yangong International Terminal.** On the ~₹5.6bn order, management highlights there was no material disruption at the project as the labour from India stayed back at the site even during the pandemic, enabling the company to resume execution rapidly.
- **The Trichy and Pune airports.** The two orders cumulatively contributed ~₹7.6bn to the end-FY20 OB (gross size: ~₹9.2bn). Management pegs the progress on both these project at somewhere between ~15% and 18%.
- **The Bengaluru underground metro-rail**. The ~₹17.7bn underground metro-rail project is likely to start contributing from Q3 FY21. Mangement had earlier said it would need insignificant capex as the two old but refurbished TBMs are already available with it.
- **IRCON tunnelling works.** These projects had commenced execution but were temporarily suspended owing to the lockdown. Mangement now expects execution to pick up materially from Q3 FY21.
- **The CPWD project, Delhi.** At the ~₹11.3bn project, earlier expected to contribute from Mar'20, execution is now expected to pick up substantially only from Q3.

Other highlights

- **Execution in the Covid'19-riddled context.** The outbreak of Covid-19 impacted the company more as a large part of its projects are located in urban areas and are, hence, subject to certain additional restrictions. Across its operational work sites, the company is currently operating at ~50% blended efficiency.
  - Labour availability is its key concern. Of its ~18,000 work-force deployed at its work-sites pre-Covid, fewer than ~8,500 were available at end-May'20. Currently, it pegs labour availability at ~50%.
  - It further indicated that despite labour's willingness to return, lack of adequate transportation facilities throws up a key hurdle.
  - Considering all aspects, it expects to attain significant gains in its workforce by end-Aug'20, and for execution to then pick up pace.
  - On the constrained execution momentum in Q1 and the monsoon-impact coupled with labour issues in Q2, it expects H1 FY21 to be hobbled. While it expects to make a significant recovery in Q3, normalcy is expected only by Q4. Currently, it has shied away from any revenue guidance.

- It elucidated that, having spoken to its clients, the majority are willing to extend execution timelines; some have even discussed allowing the release of bank guarantees to a certain extent.
- On cost-compensations by its clients, management expressed that the metro-rail authorities in Bengaluru and Nagpur have agreed to compensate for wages paid to labour during the lockdown-period. On other cost-compensations, there are no updates.
- Management expects the EBITDA margin to see some pressure on account of the country-wide Covid-19 disruptions. While a part of these would be offset by compensation from clients, it is also looking at cost-saving measures by lowering fixed costs.

Estimates revision, Valuation

Owing to Covid-heavy conditions, the company is likely to lose man-days in FY21. We see a part of the disruption spilling over to FY22. Accordingly, we lower our FY21e and FY22e revenue ~23% and ~6% respectively. Resultantly, FY21e earnings would be down ~57%, and FY22e earnings down ~10%.

Mindful of the altered risk profile, we lower our PE valuation multiple to 9x, from 10x earlier.

On our new estimates, our target price (derived using 9x FY22e EPS of ₹7) comes to ₹63 a share (down from ₹77 earlier).

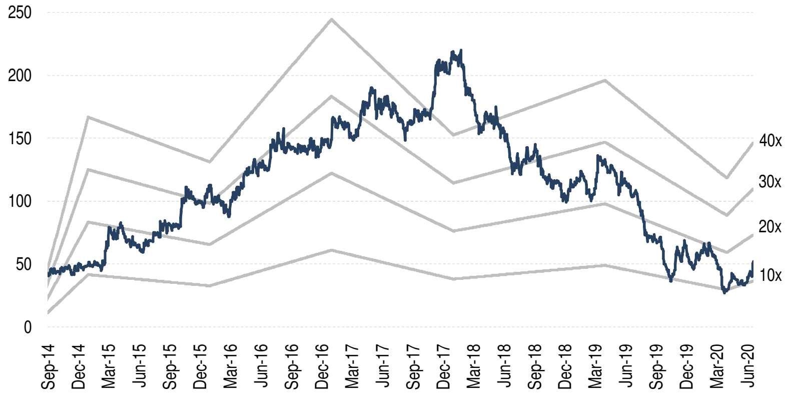
Fig 14 – Change in estimates

(₹ m)	Original Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	34,256	38,319	26,294	36,169	*-23.2*	*-5.6*
EBITDA	3,477	3,907	2,529	3,726	*-27.3*	*-4.6*
EPS (₹)	6.9	7.7	3.0	7.0	*-56.9*	*-10.0*

Source: Anand Rathi Research

On our revised estimates, the stock trades at PER of 16.7x FY21e and 7.1x FY22e.

Fig 15 – PE band



Source: Bloomberg, Anand Rathi Research

Risk

- Any markedly slower-than-expected execution.

Appendix

Analyst Certification

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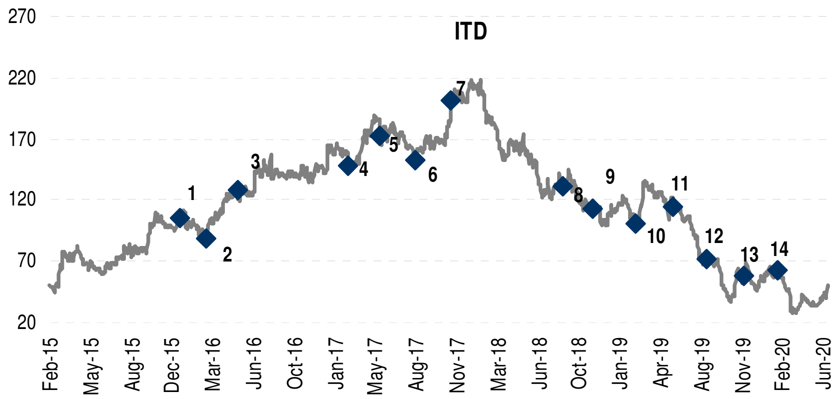
Rating and Target Price History (as of 19 June 2020)



	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
14	12-Feb-20	Buy	77	62

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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