

ITALIAN-THAI DEVELOPMENT PLC

No. 139/2023
15 December 2023

CORPORATES

Company Rating: BB+
Issue Ratings:
Senior unsecured BB
Outlook: Negative

Last Review Date: 10/04/23

Company Rating History:

Date	Rating	Outlook/Alert
10/04/23	BBB-	Negative
08/04/21	BBB-	Stable
19/01/21	BBB-	Alert Negative
30/09/13	BBB-	Stable
27/08/12	BB+	Negative
02/07/12	BB+	Alert Negative
08/06/12	BBB-	Negative
06/05/11	BBB	Stable
30/04/09	BBB+	Negative
13/09/07	BBB+	Stable
11/01/07	A-	Negative
23/11/05	A-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Italian-Thai Development PLC (ITD) to “BB+” from “BBB-” and downgrades the ratings on ITD’s existing senior unsecured debentures to “BB” from “BBB-”. The outlook remains “negative”. The issue rating is one notch below the company rating to reflect the rise in ITD’s priority debt ratio to 55.8%, exceeding the 50% threshold according to our “Issue Rating Criteria”.

The rating downgrades reflect our concerns over the company’s heightened liquidity risk, given its relatively weak operating performance and high financial leverage. Moreover, unfavorable conditions in the bond market are making it more difficult for several companies, including ITD, to rollover its maturing debenture obligations. ITD’s ongoing plans to divest non-core assets, such as the cement plant and its stake in the potash mine, are underway. However, the timing remains uncertain. The “negative” outlook implies that the ratings on ITD and its outstanding debentures could be downgraded further over the next 12-18 months if its liquidity position does not improve from current levels.

The ratings continue to reflect ITD’s leading position in the domestic engineering and construction (E&C) industry as well as its large and diverse project backlogs. The ratings are weighed down by its high financial leverage resulting from sizable investments in several non-productive assets and high working capital funding needs, as well as its susceptibility to the intense competition and cyclical nature of the E&C business.

ITD’s operating performance in the first nine months of 2023 (9M23) aligned with our forecast. Revenues in 9M23 reached THB52.6 billion, achieving 76% of our target. Furthermore, its earnings before interest, taxes, depreciation, and amortization (EBITDA) also increased to approximately THB6 billion, up by 54% year-on-year (y-o-y). ITD’s gross margin and EBITDA margin also recovered to around 8.9% and 11.5% from only 4.6% and 8.0% in 2022, respectively.

However, ITD’s interest burden has risen to nearly THB2.2 billion in 9M23, increasing by 11% y-o-y. This upswing is due to a higher debt level, driven by higher working capital funding requirements and rising borrowing costs. ITD’s adjusted debt has climbed to THB44 billion, exceeding our target of THB43 billion. As of September 2023, ITD’s debt to capitalization ratio was 78.9%, down slightly from 79.7% in 2022. The EBITDA interest coverage ratio stood at 2.75 times in 9M23 while the ratio of funds from operations (FFO) to debt improved to 9.2% in 9M23 from 5.1% in 2022.

Despite the improvement, ITD still has very limited headroom under the financial covenants. The key financial covenants on its debentures and bank loan obligations require the company to maintain its net interest-bearing debt to equity ratio below 3.0 times. The company’s ratio at the end of September 2023 was 2.89 times, declining slightly from 2.97 times at the end of December 2022.

In addition, ITD’s liquidity is tight. As of September 2023, its sources of liquidity included cash on hand of THB4.6 billion, unused uncommitted bank facilities of THB8.2 billion, and expected FFO of around THB5 billion per annum. The company had a total of THB26.4 billion debts coming due over the next 12 months, including THB2.0 billion in senior unsecured debentures, THB23.2 billion in bank loans, and THB1.2 billion in leases and other financial liabilities. Its annual capital expenditures are expected to total around THB3.0 billion.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

After assessing its sources of liquidity, we expect ITD will need to refinance most of its maturing debts to maintain sufficient liquidity and support ongoing construction projects. However, given the adverse bond market conditions, we expect ITD to face difficulties in rolling over its maturing debentures.

As ITD's priority debt to total consolidated debt ratio at the end of September 2023 rose to 55.8% from 49.8% at the end of 2022, exceeding our 50% threshold, we view ITD's unsecured creditors as being significantly disadvantaged with respect to the priority of claims against the company's operating assets. Thus, the ratings on ITD's senior unsecured debentures are lowered down one notch below the company rating to reflect the subordination risk.

RATING OUTLOOK

The "negative" outlook reflects the uncertainty of ITD's liquidity over the next 12-18 months. The ratings could be downgraded further if its liquidity position does not improve from current levels.

RATING SENSITIVITIES

The ratings and/or outlook may be upgraded if ITD successfully resolves the liquidity concerns and mitigates the risk of a potential financial covenant breach while demonstrating sustained improvements in its operating performance. Conversely, the ratings could be downgraded if there is no indication of improvement in its liquidity situation.

COMPANY OVERVIEW

ITD was established in 1958 by Dr. Chaijudh Karnasuta and Mr. Giorgio Berlingieri, an Italian naval architect. The company was listed on the Stock Exchange of Thailand (SET) in 1994. ITD's business comprises three main areas: domestic construction, overseas construction, and long-term investments. ITD faced difficulties during the 1997 financial crisis. Subsequent restructuring completed in 2002 diluted the ownership stake of the Karnasuta Family to 48% from 64%. The family owned a 24% stake as of January 2023.

The company is engaged in a broad range of civil construction work, ranging from constructing buildings, industrial plants, pipelines, railways, expressways, airports, seaports, power plants, hydro-electric dams, and mines. In all, domestic projects comprise 60%-70% of the company's total revenue annually while overseas projects make up the rest. E&C projects undertaken by its India-based subsidiary, ITD Cementation India Ltd., make up most of the revenue from overseas projects.

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Italian-Thai Development PLC (ITD)

Company Rating:	BB+
Issue Ratings:	
ITD24DB: THB1,215 million senior unsecured debentures due 2024	BB
ITD254A: THB6,000 million senior unsecured debentures due 2025	BB
ITD266A: THB2,785 million senior unsecured debentures due 2026	BB
Rating Outlook:	Negative

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