Rail Vikas Nigam Limited

October 03, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer Rating	0.00	CARE AAA (Is); Stable* [Triple A (Issuer Rating); Outlook: Stable]	Assigned
Total instrument	**0.00 (₹ Zero Only)**		

*Subject to the company maintaining external debt (excluding loans for project execution being serviced by Ministry of Railways (MoR) as per the MoU between RVNL and MoR and mobilisation advances) to Profit before interest, lease, depreciation and tax (PBILDT) not exceeding of 1.00x. (External Debt/PBILDT as on March 31, 2022 at 0.04x)

Detailed rationale and key rating drivers

The issuer rating assigned to Rail Vikas Nigam Limited (RVNL) takes into account its positioning as one of the largest infrastructure capital expenditure vehicles of Government of India (GoI) signifying its managerial and financial linkages with GoI along with 78.20% ownership. The rating also derives strength from RVNL's significant execution capabilities in the railway segment and its strong orderbook position as on July 31, 2022 with more than 95% of the projects from the Ministry of Railways (MoR) on a nomination basis having a cost-plus margin structure.

While domestic railway projects are now being tendered through MoR's new competitive bidding system, the revenue visibility is strong for about three years. RVNL has started bidding in open market apart from bidding in domestic and international projects through joint ventures to further scale up of its operations. RVNL plans to leverage on its project management skills and sound technical qualifications to secure projects in era of discontinuation of nomination policy from MoR.

The rating also favourably factors in the company's low counterparty risk with primarily strong government entities as counterparties and its favourable financial risk profile marked by strong growth in total operating income (TOI), low reliance on unaided borrowings and strong liquidity position.

The rating strengths are, however, partially tempered by the competitive and fragmented nature of the industry and moderate profitability, which is expected to remain range bound in light of current large order book concentrated to nomination based projects. Going forward, RVNL's ability to maintain existing scale up of operations and moderate profitability while securing as well as executing projects from competitive bidding shall be crucial. Besides this, investments to subsidiaries and joint ventures (JVs) and inherent life cycle risks of build operate transfer (BOT) projects are the other credit deterrents.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Shareholding of MoR below 51%.
- Weakening in managerial and financial linkages with MoR, GoI.
- Exposure to large-sized BOT projects diluting debt protection indicators
- Significant decline in order book position with dip in PBILDT margin
- External debt (excluding loans for project execution being serviced by Ministry of Railways (MoR) as per the MoU between RVNL and MoR and mobilization advances) to PBILDT exceeding 1.00x.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Strong management profile with significant linkages with the GoI and the MoR: RVNL was incorporated in 2003 and is a Mini Ratna Category-I public sector undertaking (PSU) since 2013, wherein, the GoI holds 78.20% equity. RVNL is the one of the few agencies through which the MoR has implemented railway projects throughout the country. RVNL has supported

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

MoR for incurring more than ₹1,00,000 crore of infrastructure capital expenditure wherein it has completed about 195 infrastructure projects in India between 2003-2022. MoR vide office memorandum dated August 10, 2022 has also recommended to Department of Public Enterprises (DPE), the proposal for re-categorisation of RVNL a Schedule 'A', Mini Ratna -I, CPSE to 'Navratna'.

As on June 30, 2022, the board of RVNL is headed by Pradeep Gaur, Chairman and Managing Director (CMD). He holds a M.Tech. degree in Structural Engineering from the Punjab Engineering College, Chandigarh, and has over three decades of rich and varied experience in railways and project development. He has been directly responsible for the commissioning of more than 800 km of New Line/Doubling/Gauge Conversion while at RVNL. He commissioned the 4.62 km 'Vembanad Rail Bridge' one of the longest railway bridges in the country in 27 months (June 2007 to September 2009) in Cochin and was responsible for construction of 7 km tunnel in 25 months (December 2015 to January 2018) by working from both the faces of the tunnel in Andhra Pradesh.

RVNL holds strong linkages with the MoR and is professionally managed by the board of directors comprising four whole-time directors along with the CMD, one government nominee director and two independent directors. RVNL receives interest free mobilization advances from MoR for executing MoR projects.

Strong order book position: The company's orderbook as on July 31, 2022 stood at over ₹50,000 crore with a revenue visibility of more than 2.5 times of the FY22 income from operations. Earlier, the company used to be nominated by the MoR for various railway projects, which shifted to a competitive bidding basis. CARE Ratings takes cognisance of RVNL procuring about ₹4,000 crore of projects on competitive bidding basis since November 2021. CARE Ratings further believes that RVNL will continue to secure a comfortable portion of such tenders under the bidding system by its long-standing experience in executing railway projects. Of the total order book outstanding as of July 31, 2022, around 95% of the orders are received on a nomination basis from the MoR, the proportion of projects on nomination, however, is expected to come down over the next two-three years during which project from competitive bidding shall form major chunk of the projects. The company is also pursuing diversification of the orderbook by taking up projects in the road and mass rapid transit (MRT) segments. RVNL has started bidding in open market, apart from bidding in domestic and RVNL is also pursuing international projects through joint ventures to further scale up of its operations. RVNL plans to leverage on its project management skills and sound technical qualifications to secure projects in era of discontinuation of nomination policy from MoR.

The projects on nomination from the MoR are 'cost-plus' in nature, wherein, RVNL receives a fixed management margin over the cost incurred for executing these projects. RVNL is not required to furnish performance or advance bank guarantees (BGs) for these cost-plus projects. Currently, all the projects of RVNL are based within India, however, the company proposes to take up projects overseas as well.

Established track record and proven project execution capabilities: The company began operations in 2005 with the objectives of raising extra-budgetary resources and implementation of projects relating to creation and augmentation of capacity of rail infrastructure on fast-track basis. The company contributed to more than 35% of railway doubling and more than 25% of railway electrification done in India. RVNL has also been rated "Excellent" ten consecutive times by DPE, Government of India. The scale of operations of RVNL has reported a strong year-on-year increase with a CAGR of 27% for the past five years.

Low counterparty risk: The company's client list is dominated by Central and state government undertakings such as Zonal Railways, National Highways Authority of India and Indore Metro Rail Corporation among others, which mitigates the counterparty risk to a large extent.

Healthy growth in scale of operations with low reliance on external debt: The company exhibits a favourable financial risk profile on account of its project management capability, allowing the company to scale up its operations to ensure healthy cash generation. RVNL's total operating income reported a CAGR of 27% for the past five fiscals and stood at ₹19,381.71 crore for the fiscal year ended March 31, 2022. RVNL operates through the mode of sub-contracting and has a track record to sub-contract the projects to marquee contractors.

The company does not have any fund-based working capital limits. For its operations, RVNL has a monthly back-to-back basis reimbursement mechanism in place wherein the payment to sub-contractors is made on a monthly basis by RVNL's accruals and the bills are subsequently reimbursed by Indian Railways with a management margin. The low counterparty risk on the principal contractor side viz. Indian Railways also ensures availability of working capital.

RVNL has low dependence on external bank borrowings. However, certain projects of RVNL are funded by Indian Railway Finance Corporation (IRFC) wherein IRFC extends loans to RVNL for executing these projects. These projects fall under the purview of the memorandum of understanding (MoU) between MoR and RVNL wherein RVNL is responsible for the financial closure, monitoring, satisfactory completion and commissioning of these projects and MoR shall take or cause to be taken, all action, including provision of funds, facilities, services and other resources necessary or appropriate to enable RVNL to perform its obligations and shall cause RVNL to perform its obligations in accordance with the Loan Agreement and Project Implementing Agreement. As per the MoU the funds for servicing these loans is provided by the Railway Board and the servicing is passed through the accounts of RVNL. The adjusted gearing of RVNL (excluding the IRFC pass-through debt) stood at 0.80x as on March 31, 2022, including interest free advances from MoR. Even during the competitive bidding scenario, RVNL does not expect any significant external debt from banks due to its sound project management skills. Any change in stance of the same leading to deterioration in external debt/PBILDT shall be key rating monitorable.

Key rating weaknesses

Inherent challenges associated with the construction industry: The disproportionate hike in commodity prices as compared to inflation indexation, aggressive bidding, delay in the achievement of financial closure, or delay in project progress due to the unavailability of regulatory clearances may affect the credit profile of the contractors and exert pressure on the margins of the entities operating in the industry.

Moderate profit margins: The profitability parameters of the company have been moderate marked by PBILDT margins of 6.18% during FY22. The margins are expected to be range bound as the proportion of projects from nomination adding to turnover is expected to be higher in the medium term. Going forward, RVNL's ability to maintain existing scale up of operations and moderate profitability while securing as well as executing projects from competitive bidding shall be crucial.

Exposures to subsidiaries/JVs and life cycle risks of BOT projects: RVNL has a portfolio of six special purpose vehicles (SPVs) incorporated as JVs for implementing and operating specific railway projects on build, operate & transfer (BOT) basis where it as an equity exposure of ₹1,108.05 crore. Furthermore, RVNL also has long-standing interest-bearing debtors from their JV 'Krishnapatnam Railway Company Limited (KRCL)' wherein ₹846 crore is outstanding as debtors and ₹530 crore is outstanding as interest. Together the dues from KRCL from about 24.50% of RVNL's net worth. The JV is undergoing arbitration with the Southern Central Railway (SCR) for clearance of operational dues payable by SCR to KRCL. Any favourable award from the arbitration is expected to be utilized for clearing the dues of RVNL and is a key monitorable.
RVNL also has two SPVs viz. Kutch Railway Company Limited (Implementation of doubling works) and Angul Sukinda Railways Company Limited (New Line deployment) which are under implementation and therefore exposing the company to the risks associated with project execution. The company is also exposed to life cycle risks of these projects such as revenue risk, financial risks etc.

Liquidity: Strong
The liquidity position of RVNL is strongly supported by the strong cash generation from its own operations. Besides, the cost-plus nature of orders with funding for execution met on a back-to-back basis between Indian Railway and the contractors provides readily available working capital support and stability to the margins of RVNL. The company does not have any debt obligations to be serviced form its accruals. The debt on the books is completely of pass-through nature wherein the servicing of the debt is done by MoR passing through the books of RVNL making the cash flow position of the company strong. The unencumbered cash and back balances as on August 26, 2022, stood at ₹5,691 crore.

Analytical approach
Standalone, while factoring parent notch up due to GoI ownership and likely support to be extended to JVs, subsidiaries and SPVs.

Applicable criteria
Policy on default recognition
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Construction
Policy on Withdrawal of Ratings

About the company

RVNL was incorporated as Public Sector Undertaking (PSU) on January 24, 2003, with the vision of the then Hon'ble Prime Minister, Bharat Ratna Late Mr Atal Bihari Vajpayee, to bridge the infrastructure deficit on Indian Railways. The company was granted Miniratna status in September 2013 and has also been recommended for Navaratna status by MoR. RVNL generally works on a turnkey basis and undertakes the full cycle of project development from conceptualisation to commissioning including stages of design, preparation of estimates, calling and award of contracts, project and contract management, etc. The company has been listed after disinvestment of 12.16% stake of GoI through IPO. The company also came up with an offer for sale for divestment of additional 9.64% stake with a 5% green shoe option to comply with minimum public shareholding criteria.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(UA)^
Total operating income	15,403.65	19,381.71	4640.75
PBILDT	893.86	1,197.62	280.63
PAT	940.55	1,087.22	283.10
Overall gearing (times)*	1.18	1.81	NA
Interest coverage (times)	1.95	2.12	1.78

A: Audited; UA: Un-Audited; NA: Not Available
*Including IRFC pass through debt
^Q2FY23 financials are yet to be published by the company
Note: Financials have been classified as per CARE Ratings' internal benchmarks

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AAA (Is); Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE AAA (Is); Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-

Not applicable

Annexure-4: Complexity level of various instruments rated for this company-

Not applicable

Annexure-5: Bank lender details for this company-
Not applicable

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Maulesh Desai
Phone: +91-79-4026 5605
E-mail: maulesh.desai@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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