Ramky Infrastructure Limited

August 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	268.17	CARE C; Stable	Revised from CARE BB-; Stable to CARE D and simultaneously revised to CARE C; Stable
Long Term / Short Term Bank Facilities	497.53	CARE C; Stable / CARE A4	Revised from CARE BB-; Stable / CARE A4 to CARE D / CARE D and simultaneously revised to CARE C; Stable/ CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Ramky Infrastructure Limited (RIL) to 'CARE D' reflects delays in debt servicing by the company, as reported in FY23 audit report. The rating was, hence, revised to CARE D as per CARE's policy of recognizing default. However, following regularization of debt servicing by the company for past 90 days, rating stands revised to CARE C; Stable/ CARE A4.

The ratings are constrained by several instances of delays which were regularised subsequently, significant exposure to group entities, bank guarantees stuck in the cancelled orders, equity commitments towards in-house/group orders along with fragmented nature of construction sector with tender-based operations and challenges in the execution.

However, ratings derive strength from the comfortable orderbook position concentrated with in-house/group orders, moderate reliance on subcontracting with healthy asset base, improvement in financial performance in FY23.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profitability and liquidity with adequate working capital financing thereby enabling growth in scale of operation
- Realization of investments, loans advances to road assets leading to improvement in risk profile

Negative factors

- Extension in working capital cycle thereby deteriorating the liquidity profile
- Delay in execution of projects undertaken by SPVs thereby requiring funding support from the company

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects satisfactory orderbook position which is expected to aid the growth in scale of operation and support profitability.

Detailed description of the key rating drivers:

Key weaknesses

Delay in debt servicing with subsequent regularisation: There were delays in debt servicing in the recent past, as reported in annual report of the company for FY23. The delays were primarily on account of procedural reasons and recurring in nature. Further, the company has been facing working capital gap which has resulted in pressure on the existing working capital borrowings and hence resulted in instances of overdraw in the working capital utilisation.

High Exposure to group entities (corporate guarantee, Investments & Loans & advances): RIL had/has presence in Public Private Partnership space through SPV's or through its subsidiaries. While many of such assets have been monetized/written-off but continues to have investments in many assets by way of direct investments or through loans in the form of ICDs. Such exposure put together results in aggregate amount of Rs 745 crore as on March 31,2022 (Rs 707 crore as on March 31,2021), which exceeds the net worth of Rs 685.93 crore as on March 31,2022, thereby resulting in negative adjusted net worth.

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

This apart, the company has corporate guarantee exposure of Rs 1440 crore towards Srinagar Banihal Expressway Limited (SBEL), out of which Rs 236.64 crore pertaining to Indian Overseas Bank is being disputed in the Hon'ble Tribunal / High Court of Telangana. In addition, the company has disputed claims of Rs 490 crore in SBEL from subcontractors. SBEL and Sehore Kosmi Expressway Limited accounts are NPA with lenders, which are in different stages of settlement with the existing lenders. Realization of the road assts and reduction in corporate guarantee are critical from improvement in overall risk profile.

Stuck bank guarantee in the cancelled orders: The company has exposure by way of stuck bank guarantees of about Rs 92 crore issued towards the projects, wherein the orders are cancelled, and it is in various stages of arbitration. The above said BGs were issued during the period FY2010 to FY2013. The company has issued about Rs 20 crore as margin money, thereby. the net liability is limited to Rs 72 crore. Management is of the view, that most of the bank guarantees will be returned without any adverse effect from the ongoing disputes.

Equity commitments for in-house/group orders: RIL has been awarded development of 6 Sewage Treatment Plants under Hybrid Annuity Model for 15 years from HMWSSB. This apart, the company has received work order for Strengthening, Augmentation, Expansion, Operation and Maintenance of Jawaharlal Nehru Pharma City (JNPC), Visakhapatnam, Andhra Pradesh on Design, Build, Finance, Operate and Transfer ("DBFOT") basis for 20 years. Both the orders are being executed through SPVs and the EPC works are being executed by RIL.

Fragmented nature of construction sector with tender-based nature of operations and execution challenges: The infrastructure sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players. All these are tender- based and the revenues are dependent on the ability of the company to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. Also, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive. However, the company's long industry experience mitigates this risk to some extent.

Key strengths

Comfortable orderbook position concentrated with in-house/group orders: Order book of RIL stood comfortable at Rs 8691 crore as on June 30,2023. The same translates to healthy order book to Total Operating Income (TOI) ratio of 5.89x of gross billing of FY23 which result in medium term revenue visibility. In-house/group orders are concentrated with 89.11% (Rs 7745.22 crore) of the total order book of Rs 8691 crore and balance orders are from market through bidding.

Moderate reliance on subcontracting with healthy asset base: The raw material cost and sub-contracting cost forms major portion for total cost of sales for RIL. Concrete, sand, steel and cement are the major inputs for any construction entity, the prices of which are volatile. Nevertheless, RIL has in-built price escalation clauses in majority of projects which partially diminishes the risk of increase in cost of sales.
The company has a healthy gross block of Rs 280.52 crore, which is entirely debt free. Further, the company has been adding equipment as and when required. Aforesaid sizeable investment in equipment along with efficient mobilization of resources has aided the company in improving operational productivity and completing orders within timelines.

Improvement in financial performance in FY23: Improvement in scale of operations to Rs 1473.99 crore in FY23 as against Rs 1298.04 crore in FY22 backed by timely execution of orders. The operating profit margin (PBILDT) remained stable to 20.50% for FY23 as against the 22.65% in FY22. Operating profit improved to Rs. 214.47 crore in FY23 from Rs. 118.37 crore in FY22. The capital structure of the company remained moderate with overall gearing of 0.94x as on March 31,2023 as against 1.20x as on March 31,2022. The improvement in overall gearing was due to accreditation of profit to net worth.

Stable demand outlook due to the thrust of the government on infrastructure development: Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes a significant role. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry coupled with the Covid-19 pandemic. The Government of India has been undertaking several steps for boosting infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown for the past couple of years. The same is expected to drive growth opportunities, subject to the availability of adequate working capital. Thrust of the government on infrastructure development is expected to augur well for construction players with low leverage and demonstrated execution capabilities, in the medium term. The government initiatives in road construction such as a build-up of new rural roads and gradation of existing rural roads, broadening of national highways and providing connectivity to tribal areas, has offered various opportunities for construction companies. The India Infrastructure Sector Market is anticipated to register a CAGR of more than 8.2% over the next five years. Further, as per the budget for 2023-24, there has been an increase in capital expenditure on infrastructure investment by Rs.33 crore i.e., Rs.10 lakh crore for 2023-24, which is 3.3% of GDP.

Liquidity: Stretched
Liquidity is stretched on account of working capital gap which has resulted in pressure on existing capital and reliance on creditors for funding requirement.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks : Not Applicable

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Ramky Infrastructure Limited (RIL) is a flagship company of Ramky Group, which was incorporated as Ramky Engineers Pvt Ltd in 1994 and later in 2003, the company got its present name and was thereafter reconstituted as a public limited company. RIL is listed in NSE/BSE since 2010. RIL undertakes construction and infrastructure projects in various sectors such as water and wastewater, transportation (including terminals), irrigation, industrial construction (including SEZs & industrial parks), power transmission and distribution, buildings (including residential, commercial & retail property). RIL undertakes construction through EPC and development projects through SPVs. RIL's debt were restructured under Joint lender Forum (JLF), which were implemented on June 15,2015. RIL is being promoted by Mr Ayodhya Rami Reddy Alla, MP Rajya Sabha; and his family members having shareholding of 69.83% as on June 30,2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,298.04	1473.99	531.54
PBILDT	293.96	302.19	143.79
PAT	118.37	214.47	106.40
Overall gearing (times)	1.20	0.94	NA
Interest coverage (times)	3.05	4.21	8.49

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL has placed the ratings under issuer not cooperating category due to absence of sufficient information to carry out surveillance exercise vide its PR dated July 29, 2022.

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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
Fund-based - LT-Cash Credit		-	-	-	268.17	CARE C; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	497.53	CARE C; Stable / CARE A4

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	268.17	CARE C; Stable	-	1)CARE BB-; Stable (25-Aug-22)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	497.53	CARE C; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (25-Aug-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]

Note on the 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.

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