Ramky Infrastructure Limited (Revised)

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	242.73 (Reduced from 268.17)	CARE BB-; Stable	Revised from CARE C; Stable
Long-term/Short-term bank facilities	463.74 (Reduced from 497.53)	CARE BB-; Stable/CARE A4	Revised from CARE C; Stable/CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings of the bank facilities of Ramky Infrastructure Limited (RIL) considers the improvement in the scale of operations and the satisfactory order book position, however, it is constrained by the high exposure to group entities by way of direct investments and advances and through a corporate guarantee (CG) of ₹1,440 crore, thereby resulting in a negative adjusted net worth. The CG is expected to be fall-off, as the company has entered into a one-time settlement (OTS) of Srinagar Banihal Expressway Limited (SBEL).

Furthermore, the ratings are tempered due to the equity commitments for the in-house or group orders and due to the stuck bank guarantee (BG) in the cancelled orders that were issued during the period from FY2010 to FY2013. The ratings continue to derive strength from the improvement in profitability, which is on account of the decreasing reliance on subcontracting.

RIL has a moderate capital structure and debt coverage ratios due to no exposure to term loans, as the company is under restructuring process and majority of the projects are in-house, which further lowers its dependency on working capital limits. Furthermore, RIL has a comfortable order book position, with moderate sectorial diversification and geographical concentration.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the operating scale and operating profit margins with less than 10% of the estimates for FY24.
- Realisation of investments, loans, and advances to road assets, leading to improvement in the risk profile.

Negative factors

- Deterioration in liquidity due to the stretched working capital cycle.
- Delay in execution of projects through special purpose vehicles (SPVs) within the envisaged timelines and costs.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the satisfactory order book position, which is expected to aid the growth of the company's scale of operations and support its profitability.

Detailed description of the key rating drivers

Key weaknesses

High exposure to group entities (CG, investments, and loans and advances)

RIL has a presence in the public-private partnership (PPP) space through SPVs or through its subsidiaries. While many of such assets have been monetised or written-off, it continues to have investments in many assets by way of direct investments or through loans in the form of inter-corporate deposits (ICDs). Such exposure, put together, results in an aggregate amount of ₹828 crore as on March 31, 2023 (₹745 crore as on March 31, 2022).

This apart, the company has a CG exposure of ₹1,440 crore towards SBEL. SBEL has entered into an OTS of ₹1,195.49 crore with the asset reconstruction companies (ARCs). According to the OTS, the entire ₹1,195.49 crore is schedule to be paid by September 30, 2023. As on August 2023, RIL has paid ₹425 crore as OTS repayment schedule and it has kept ₹209 crore worth lien marked fixed deposits (FDs) with ARCs. The remaining ₹570.49 crore was supposed to be paid by September 30, 2023, however, as per the management, the company have received an extension for the same till December 31, 2023. This apart, RIL is proposing to

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

refinance the balance OTS repayment amount and the company is in an advanced stage for the same. However, realisation of the road assets and reduction in the CG are critical from the improvement point of view in the overall risk profile.

Stuck BG in the cancelled orders
The company has exposure by way of stuck BGs of about ₹105 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 from FY2010 to FY2013. The company has issued about ₹18.02 crore as margin money, thereby, the net liability is limited to ₹87 crore. The management is of the view that most of the BGs will be returned without any adverse effect from the ongoing disputes.

Equity commitments for in-house or group orders
RIL has been awarded the development of six sewage treatment plants (STPs) under the hybrid annuity model (HAM) for 15 years from Hyderabad Metropolitan Water Supply and Sewage Board (HMWSSB). This apart, the company has received work order for the strengthening, augmentation, expansion, and operation and maintenance (O&M) of Jawaharlal Nehru Pharma City (JNPC), Vizag, Andhra Pradesh, on a design, build, finance, operate, and transfer (DBFOT) basis for 20 years. Both the orders are being executed through SPVs and the engineering, procurement, and construction (EPC) works are being executed by RIL. The above said orders will generate revenue of ₹1,463 crore, of which RIL has generated about ₹450 crore in FY23 and Q1FY24 combined. Hence, the balance ₹1,013 crore will be generated in the next two years. However, at the same time, RIL must infuse equity and unsecured loans to the extent of ₹220 crore in FY24 if it fails to achieve the projected financials.

As per the management, a total of ₹102 crore of capex is made towards HMWSSB and the Vishakha Pharmacity Limited (VPCL) project. In the said projects, the company claims a margin of about 40%. Hence, net infusion towards the projects is of ₹220 crore and ₹99 crore needs to be made in FY24 and FY25, respectively.

Fragmented nature of the 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 the tendering process in order procurement results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, the continued increase in execution challenges, including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk, and delays in projects due to environmental clearance are other external factors that affect the credit profiles 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 the competitive nature of the industry. Also, there are numerous fragmented and unorganised 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
Satisfactory order book position concentrated with in-house and group orders
As on June 30,2023, RIL has an outstanding order book of ₹9,498.23 crore, which is about 6.44x of the gross billing of FY23, which further indicates medium- to long-term revenue visibility. However, ₹4,200.42 crore (44.22%) of the order book consists of O&M income, which will be realised in 15-20 years. Thus, the outstanding order book (excluding O&M income) to gross billing of FY23 translates to 3.59x, which indicates medium-term revenue visibility.

Of the total outstanding orders, about 76% of the orders are being funded by VPCL, HMWSSB, and Ramky Estates & Farms Private Limited (REFL), which mitigates the counter party risk.

Moderate sectoral diversification and geographical concentration
The order book is moderately diversified, with the industrial segment comprising 52.34%, followed by buildings at 26.13%, water and wastewater at 16.62%, roads and bridges at 1.88%, power at 1.62%, and irrigation at 1.41%. The company's operations are spread across 20 states in India, however, majority of the orders are concentrated in Andhra Pradesh (49%) and Telangana (33.63%).

Moderate reliance on subcontracting with healthy asset base
The raw material cost and sub-contracting cost form major portions for the 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 an in-built price escalation clause in majority of its projects, which partially diminishes the risk of increase in cost of sales. The company has a healthy gross block of ₹280 crore as on March 31, 2023, which is entirely debt-free. Furthermore, RIL has been adding equipment as and when required. The aforementioned sizeable investment in equipment along with the efficient mobilisation of resources has aided the company in improving its operational productivity and completing orders within timelines.

Improvement in scale of operations along with profitability
RIL has shown improvement in the scale of operations by about 14% in FY23 to ₹1,553.39 crore (FY22: ₹1,360.59 crore) on the back of execution of orders on hand and the addition of new orders. The operating profit improved to ₹411.74 crore in FY23 from ₹354.65 crore in FY22 with a stable operating margin of about 26.51% in FY23 (FY22: 26.07%). The profit-after-tax (PAT) improved to ₹214.47 crore in FY23 as against ₹118.36 crore in FY22. The PAT margin improved to 13.81% in FY23 from 8.70%. The improvement was primarily due to the increase in the scale of operations and lower finance cost as compared to FY22.

Moderate capital structure and debt coverage metrics
Post restructuring, the company has been reducing debt. Currently, RIL has nil term loan exposure to banks and financial institutions (FIs). Furthermore, the fund-based working capital limits are also being reduced from the surplus generated from cash flows. The overall gearing stands moderated at 0.94x as on March 31, 2023 (FY22: 1.20x), primarily due to the accretion of profits.

Since majority of the orders are from in-house and group entities, the company relies mainly on mobilisation advances from the group entities, thereby reducing the dependence on working capital limits. Considering the limitations of the entity in accessing fresh working capital limits from the market due to restructured debt in the past, the ability of the company to have efficient working capital management in place is crucial from the credit perspective.

The interest coverage stands improved to 5.74x for FY23 as against 3.68x for FY22 and the total debt (TD)/profit before interest, lease rentals, depreciation and taxation (PBILDT) remained stable at 2.06x in FY23 as against 2.31x in FY22.

Stable industry outlook
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 past few years on account of the economic slowdown, regulatory changes, and policy paralysis, coupled with the COVID-19 pandemic, which had adversely impacted the financial and liquidity profile of players in the industry. The Government of India (GoI) 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. The 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 the build-up of new rural roads and upgradation of existing rural roads, the 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. Furthermore, as per the Budget for 2023-24, there has been an increase in capital expenditure on infrastructure investment by ₹33 crore, i.e., ₹10 lakh crore for 2023-24, which is 3.3% of the GDP.

Liquidity: Adequate
The adequate liquidity of the system is characterised by healthy generation of cash accruals of ₹328 crore against nil term loan repayment obligations for FY23, primarily due to the improved collection level due to majority of the revenue from group and in-housework orders. The surplus funds were utilised to reduce the working capital limits, for reduction in creditors to an absolute level, and for funding the purchase of machinery and equipment. The company has a free cash and a bank balance of ₹77.95 crore as on March 31, 2023.

Since the company's debt was restructured, the existing lenders have been reducing the working capital limits, thereby the average fund-based working limit continues to have almost 93% utilisation. However, the average non-fund-based utilisation stands at 70% for the trailing 12 months ending August 31, 2023, despite reduction in limits, providing sufficient cushion for bidding new projects. RIL can manage the working capital requirements, as majority of the projects are from in-house or group entities, which is expected to continue in future operations.

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

RIL is the flagship company of the Ramky group, which was incorporated as Ramky Engineers Private Limited in 1994, and later in 2003, the company got its present name and was thereafter reconstituted as a public limited company. RIL is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) since 2010. It undertakes construction and infrastructure projects in various sectors such as water and wastewater, transportation (including terminals), irrigation, industrial construction (including special economic zones [SEZs] and industrial parks), power transmission and distribution, buildings (including residential, commercial, and retail properties). RIL undertakes construction through EPC and development projects through SPVs. The company's debt was restructured under the joint lender forum (JLF), which was implemented on June 15, 2015. RIL is being promoted by Ayodhya Rami Reddy Alla, MP, Rajya Sabha; and his family members have a 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	1,360.59	1,553.39	531.54
PBILDT	354.65	411.74	143.79
PAT	118.36	214.47	106.40
Overall gearing (times)	1.20	0.94	NA
Interest coverage (times)	3.68	5.74	8.49

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

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

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	242.73	CARE BB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	463.74	CARE BB-; 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	242.73	CARE BB-; Stable	1)CARE C; Stable (29-Aug-23)	1)CARE BB-; Stable (25-Aug-22)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	463.74	CARE BB-; Stable / CARE A4	1)CARE C; Stable / CARE A4 (29-Aug-23)	1)CARE BB-; Stable / CARE A4 (25-Aug-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: 80- 46625555 E-mail: karthik.raj@careedge.in
Relationship Contact Ramesh Bob A Director **CARE Ratings Limited** Phone: +91-040 40102030 E-mail: ramesh.bob@careedge.in	Niraj Thorat Assistant Director **CARE Ratings Limited** Phone: +91-040 40102030 E-mail: Niraj.Thorat@careedge.in Parth Mehta Analyst **CARE Ratings Limited** E-mail: Parth.Mehta@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.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in