Rail Vikas Nigam Limited

November 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term / short term bank facilities	3,500.00	CARE AAA; Stable / CARE A1+	Assigned
Issuer rating Issuer Rating	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1.

*The issuer rating for RVNL has been withdrawn as per the request from the company.

Rationale and key rating drivers

The ratings assigned to bank facilities of Rail Vikas Nigam Limited (RVNL) continues to take into account RVNL's strong managerial and financial linkages with GoI along with 72.84% ownership. The rating also derives strength from RVNL's significant execution capabilities in the railway segment and its strong orderbook position as on June 30, 2023 with about 60-65% 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 competitive bidding system, the revenue visibility continues strong for about three years. RVNL has started bidding in competitive landscape and has been able to secure more than ₹24,000 crore worth of projects in both railways and other segments. RVNL continues to leverage on its project management skills and sound technical qualifications to secure projects in era of discontinuation of nomination policy from MoR. Basis such expertise RVNL's orderbook has also diversified towards roads, irrigation, industrial manufacturing, electrical works etc. These projects form about 35-40% of the order book while railways continue to be the key segment of the company. RVNL has secured an order of manufacturing Vande Bharat trains in a joint venture with Russia-based railway's rolling stock manufacturer "Metrowaganmash" wherein RVNL has about 25% share. The project entails manufacturing and maintenance of 125 Vande Bharat trains over a period of 35 years. Although the manufacturing project shall be a new territory for RVNL altogether, the demonstrated track record of the joint venture (JV) partner shall be supporting the order execution to an extent.

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 and sustained total operating income (TOI), low reliance on unaided borrowings and strong liquidity position. Furthermore, adequate cash accrual generation amidst the equity commitments in the underlying special purpose vehicles (SPVs), low sponsor dependence of SPV for operations and debt servicing and low leverage are some of the other strengths. CARE Ratings expects going forward, the company shall be availing to mobilisation advances backed by bank guarantees (BGs) entailing 5-10% margin which would increase the leverage of the company however, the capital structure is expected to continue to be robust. Any major leverage increase shall be a monitorable for the rating and remains a key sensitivity.

The rating strengths are, however, partially tempered by the competitive and fragmented nature of the industry and moderate profitability due to sub-contracting of most of the construction work. Going forward, RVNL's ability to maintain existing scale up of operations and improve profitability while securing as well as executing projects from competitive bidding shall be crucial. Besides this, the investments to subsidiaries and JVs and the inherent life cycle risks of build operate transfer (BOT) projects are the other credit deterrents.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Shareholding of MoR below 51%.
- Weakening in managerial and financial linkages with MoR, GoI.
- Exposure to SPVs breaching more than 50% of tangible net worth adversely impacting capital structure
- Significant decline in order book position with dip in PBILDT margin
- External debt (excluding loans for project execution being serviced by MoR as per the memorandum of understanding (MoU) between RVNL and MoR and mobilization advances) to PBILDT exceeding 1.00x.

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

Analytical approach:

Standalone, while factoring notching up due to GoI ownership and factoring in the likely equity commitments/support to be extended to JVs, subsidiaries and SPVs.

Outlook: Stable

The outlook for RVNL is expected to be 'Stable' backed by virtue of its strong financial flexibility on account of GoI holding of 72.84%. Furthermore, healthy orderbook position backed by strong counterparties and strong liquidity is expected to render stability to the risk profile of the company.

Detailed description of the key rating drivers:

Key strengths

Significant linkages with the GoI and the MoR: RVNL was incorporated in 2003 entirely held by GoI and subsequently received Mini Ratna public sector undertaking (PSU) status in 2013 and has been upgraded to 'Navratna' status during FY23 by the department of public sector enterprises (PSE). Currently GoI holds 72.84% (PY: 78.20%) equity in RVNL, the dilution of stake occurred in Q1FY24 in order to meet the minimum public shareholding requirement as per regulatory requirement for listed companies. RVNL is the one of the few agencies through which the MoR has implemented railway projects throughout the country. RVNL has supported MoR for incurring more than ₹1,20,000 crore of infrastructure capital expenditure wherein it has completed about 140 infrastructure projects in India between 2003-2023.
As on September 30, 2023, 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.
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, two independent directors. The Executive Director (Works), Railway Board, Ministry of Railways, Mr. Dhananjay Singh also serves as a government nominee on the board of RVNL. RVNL receives interest free mobilization advances from MoR for executing MoR projects.

Strong order book position: The company's orderbook as on June 30, 2023 stood at over ₹65,000 crore (PY: ₹50,000 cr) with a revenue visibility of more than 3 times of the FY23 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 ₹30,000 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 June 30, 2023, around 60-65% (PY: ~95%) of the orders are received on a nomination basis from the MoR, the proportion of projects on nomination, however, is expected to continue to come down over the next two years during which project from competitive bidding shall form majority chunk of the projects. The company is also pursuing diversification of the orderbook and has taken up projects in the road, irrigation, electrical transmission works and mass rapid transit (MRT) segments. RVNL has started bidding in open market and apart from bidding in domestic and RVNL is also pursuing international projects through joint ventures/MoUs to further scale up 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 BGs for these cost-plus projects. Currently, majority of the projects of RVNL are based within India, however, the company has taken one project in Maldives and proposes to take up more 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 has contributed to more than 35% of railway doubling and more than 25% of railway electrification done in India. RVNL has also been rated "Excellent" eleven consecutive times by the Department of Public Enterprises (DPE), Government of India. The scale of operations of RVNL has reported a strong year-on-year increase with a compounded annual growth rate (CAGR) of 22% for the past five years. CARE Ratings believes the established track record and execution capabilities will aid RVNL in securing new projects and improve the revenue visibility and cash flow generation.

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 State 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 22% for the past five fiscals and stood at ₹ 20,282 crore (PY: ₹19,381.71 crore) for the fiscal year ended March 31, 2023 reporting a modest improvement of 4.6%. 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 the projects from MoR, 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 debt (excluding the IRFC pass-through debt and interest-free advances from MoR) to Tangible networth (TNW) of RVNL and adjusted debt to PBILDT stood at 0.01x and 0.03x respectively as on March 31, 2023. Any change in stance of the same leading to deterioration in external debt/PBILDT shall be key rating monitorable.

Key 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 6.13% during FY23 (PY: 6.18%). The margins are expected to be range bound between short to medium term 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 improve 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 five operational special purpose vehicles (SPVs) incorporated as JVs for implementing and operating specific railway projects on BOT basis. Furthermore. RVNL also has three hybrid annuity (HAM) road projects at nascent stages and three multi modal logistic park (MMLP) SPVs. Furthermore, RVNL also has long-standing interest-bearing debtors from their JV 'Krishnapatnam Railway Company Limited (KRCL)' wherein ₹762 crore (PY: ₹846 crore) is outstanding as debtors and ₹688 crore (PY: ₹530 crore) is outstanding as interest. Together the dues from KRCL form about 22% (PY: 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.
The MMLP JVs are expected to be having only equity funded works and debt funding in these SPVs is not envisaged by RVNL. The HAM projects of RVNL are also in their initial stages wherein one project has received appointed date while the other two are recently awarded, these projects entail 2-3 years of construction which is being funded by a debt-equity mix exposing the company to the risks associated with project execution. Total equity commitment for RVNL is about ₹ 800 crore which are to be funded by internal accruals over 2-3 years. Going forward, some upstreaming of surplus cash flow is also estimated from Railways SPVs. Exposure to subsidiaries in the form of investment and loans advances as percentage of networth stood low at about 20% as on March 31, 2023. Going forward, extent of exposure in BOT projects and its impact on capital structure shall be key monitorable.
Besides the above, the company is also exposed to life cycle risks of these public private partnership (PPP) 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 the MoR 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 bank balances as on March 31, 2023, stood at ₹808 crore.

The company also has extended 100% margin backed BGs to some of the projects where in total margin money stood at ₹1232 crore as on March 31, 2023. The management has articulated that they shall approach the lenders to have these 100% margin BGs replaced by BGs entailing 5-10% margins. The same is also expected to improve the unencumbered balances going forward.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

The ESG issues are credit neutral or have only a minimal credit impact on RVNL. The same have been enlisted below:

	Risk factors	Mitigating measures
Environmental	1. Material selection 2. Water consumption 3. Method of construction 4. Waste management 5. Greenhouse emissions 6. Recycling	The Company has been consistently laying emphasis on utilizing energy efficient equipment in its office premises and in various projects so as to minimally effect on the ecology and environment. Solar panels are installed at all Railway Stations and level crossings. LED lighting system also installed and wherever feasible, automatic censor-based lightings are installed. Regarding waste management and recycling, RVNL follows a 4-point strategy focussed towards minimizing waste and following a circular economy RVNL also keeps a track of the environmental regulations to keep its operation up to date, the staffs is also provided with training for environmental awareness.
Social	1. Workmen safety 2. Community impact 3. Emergency response planning	For occupational health RVNL follows comprehensive training for employees, addresses workplace risks, and use feedback for ongoing safety enhancement. Towards community impact, RVNL conducted welfare programmes, such as, covid testing/vaccination camps, emergency control room, first-aid facility equipped with medical beds, oxygen concentrators, covid medicines, facemasks, medical camps empanelment of hospitals for cashless and hassle-free admission and provision of bed facility in case of hospitalisation, etc. At corporate office and PIUs for the welfare of employees. RVNL also had constructed a school building for 1200 underprivileged children during FY23 and a sewage treatment plant at gandhidham railway station. RVNL throughout the year engages in social outreach programs.
Governance	1. Stake holder engagement, supply chain management 2. Internal controls 3. Composition of the board 4. Diversity 5. Code of conduct	RVNL has a transparent reporting system governed by a board of nine directors consisting of one government nominees including the member of the railway board. There is a defined whistle-blower mechanism, regular internal and external checks for maintaining robust control.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Issuer Rating
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

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 Atal Bihari Vajpayee, to bridge the infrastructure deficit on Indian Railways. The company was granted Miniratna status in September 2013 and subsequently upgraded to Navratna status in 2023. 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. Later on through subsequent offers for sale (OFS), the subsequent GoI holding was divested to meet the minimum public shareholding requirement as stipulated by Securities Exchange Board of India (SEBI).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	19,381.71	20,281.57	5,446.25
PBILDT	1,197.62	1,244.08	347.52
PAT	1,087.22	1,267.96	333.57
Overall gearing (times)*	1.01	0.83	NA
Interest coverage (times)	2.12	2.14	2.38

A: Audited, UA: Unaudited, NA: Not available;
Note: 'the above results are latest financial results available', Q2FY24 results are yet to be published.
*Including IRFC pass through debt

Status of non-cooperation with previous CRA:
Not applicable

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer rating-Issuer ratings	NA	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	NA	-	-	-	3500.00	CARE AAA; Stable / CARE A1+

NA: Not applicable

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	Issuer rating-Issuer ratings	Issuer rat	-	-	-	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (03-Oct-22)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	3500.00	CARE AAA; Stable / CARE A1+				

*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	Issuer Rating-Issuer Rating	Simple
2	Non-fund-based - LT/ ST-BG/LC	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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About us:

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