Rail Vikas Nigam Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	20.00	CARE AAA; Stable	Assigned
Long-term / Short-term bank facilities	6,480.00 (Enhanced from 3,500.00)	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to long-term and short-term bank facilities of Rail Vikas Nigam Limited (RVNL) continues to consider RVNL's strong managerial and financial linkages with Government of India (GoI) with 72.84% ownership. Ratings also derive strength from RVNL's significant execution capabilities in the railway segment and its strong orderbook position of ₹65,000 as on December 31, 2023, with about 50% 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 remains strong for next three years. RVNL has started bidding in competitive landscape and has been able to secure more than ₹34,000 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. Based on such expertise, RVNL's orderbook has also diversified towards roads, irrigation, industrial manufacturing, and electrical works among others. These projects form about 50% of the order book while railways continue to be the company's key segment. RVNL has secured an order of manufacturing Vande Bharat trains in a joint venture (JV) 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 JV partner shall be supporting the order execution to an extent.

Ratings also favourably factor 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. 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 Limited (CARE Ratings) expects, the company shall be availing mobilisation advances backed by bank guarantees (BGs) which would increase the leverage of the company. However, the capital structure is expected to continue to be robust. Any major increase in leverage including corporate guarantee extended to build operate transfer (BOT) projects will be a rating monitorable and remains a key sensitivity.

However, rating strengths are partially tempered by the competitive and fragmented 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 and executing projects from competitive bidding shall be crucial. Besides this, the investments to subsidiaries and JVs and the inherent life cycle risks of 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 (TNW) adversely impacting capital structure.
- Significantly declining order book position with dip in PBILDT margin.
- External debt (excluding loans for project execution being serviced by MoR per the memorandum of understanding (MoU) between RVNL and MoR and mobilisation 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 due to GoI holding of 72.84%. Healthy orderbook position backed by strong counterparties and strong liquidity is expected to render stability to the company's risk profile.

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 in 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 ₹120,000 crore of infrastructure capital expenditure wherein it has completed about 140 infrastructure projects in India between 2003 and 2023.
As on December 31, 2023, the board of RVNL is headed by Pradeep Gaur, Chairman and Managing Director (CMD). He holds 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. RVNL also receives interest free mobilisation advances from MoR for executing MoR projects which lowers the dependence on external debt.

Strong order book position
As on December 31, 2023, the company's orderbook stood at over ₹65,000 crore with a revenue visibility of more than 3x 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 ₹40,000 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 on December 31, 2023, around 50% (June 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 continue to decrease the next two years during which project from competitive bidding will 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 JVs/MoUs to augment 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 RVNL's projects 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" 11 consecutive times by the Department of Public Enterprises (DPE), Government of India. RVNL's scale of operations 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 largely mitigates the counterparty risk.

Healthy growth in scale of operations with low reliance on external debt

The company exhibits a favourable financial risk profile due to its project management capability, allowing the company to scale up its operations to ensure healthy cash generation. RVNL's TOI 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 significant fund-based working capital limits. For the projects from MoR, RVNL has a monthly back-to-back basis reimbursement mechanism in place wherein monthly payment is made to sub-contractors 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. According to 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 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 contractor's credit profile and exert pressure on the margins of the entities operating in the industry.

Moderate profit margins

The company's profitability parameters have been moderate marked by PBILDT margins of 6.13% in FY23 (PY: 6.18%). The margins are expected to be range bound between short and medium term as the proportion of projects from nomination adding to turnover is expected to be higher in the medium term. CARE Ratings observes, 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 SPVs incorporated as JVs for implementing and operating specific railway projects on BOT basis. RVNL also has three hybrid annuity model (HAM) road projects at nascent stages and three multi-modal logistic park (MMLP) SPVs. 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 utilised 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 net worth stood low at about 20% as on March 31, 2023. CARE Ratings observes, extent of exposure in BOT projects and its impact on capital structure shall be key monitorable. RVNL is also extending limited period corporate guarantees for their HAM SPVs, any stress on RVNLs solvency position from the same shall be a key moritorable.

Besides the above, the company is also exposed to life cycle risks of these public private partnership (PPP) projects such as revenue risk and financial risks among others.

Liquidity: Strong

RVNL's liquidity 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 RVNL's margins. The company does not have any debt obligations to be serviced from 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 stood at ₹808 crore as on March 31, 2023.
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 financial flexibility.

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 utilising 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 and wherever feasible, automatic censor-based lightings are installed. Regarding waste management and recycling, RVNL follows a 4-point strategy focussed towards minimising waste and following a circular economy. RVNL also keeps a track of the environmental regulations to keep its operation up to date, the staff 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 uses feedback for ongoing safety enhancement. Towards community impact, RVNL conducted welfare programmes, such as, COVID-19 testing/vaccination camps, emergency control room, first-aid facility equipped with medical beds, oxygen concentrators, COVID-19 medicines, facemasks, medical camps empanelment of hospitals for cashless and hassle-free admission and provision of bed facility in case of hospitalisation among others. 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 programmes.
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

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Construction](#)

Short Term Instruments
Factoring Linkages Government Support
Factoring Linkages Parent Sub JV Group

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

RVNL was incorporated as 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, among others. 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)	9MFY24 (UA)
Total operating income	19,381.71	20,281.57	15,031.89
PBILDT	1,197.62	1,244.08	891.09
PAT	1,087.22	1,267.96	1,029.64
Overall gearing (times)*	1.01	0.83	NA
Interest coverage (times)	2.12	2.14	2.13

A: Audited UA: Unaudited; NA: Not available; Note: 'these are latest financial results available'
*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 to 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 (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	NA	-	-	-	20.00	CARE AAA; Stable
Non-fund-based - LT/ ST-BG/LC	NA	-	-	-	6480.00	CARE AAA; Stable / CARE A1+

NA: Not applicable

Annexure-2: Rating history for 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	LT	-	-	1)Withdrawn (01-Nov-23)	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	6480.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (01-Nov-23)	-	-	-
3	Fund-based - LT-Cash credit	LT	20.00	CARE AAA; Stable				

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in Prasanna Krishnan Lakshmi Kumar Associate Director **CARE Ratings Limited** Phone: +91-120-4452014 E-mail: prasanna.krishnan@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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