Ramky Infrastructure Limited

August 25, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	268.17	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	497.53	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable/ A Four)	Assigned
Total Bank Facilities	**765.70 (₹ Seven Hundred Sixty-Five Crore and Seventy Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Ramky Infrastructure Limited (RIL) is constrained by high exposure to group entities by way of direct investments/advances and through corporate guarantee of Rs 1440 crore thereby resulting in negative adjusted net worth. Further, the rating is tempered due to equity commitments for in-house or group orders and due to the stuck bank guarantee in the cancelled orders which were issued during the period FY2010 to FY2013.

However, the rating derives the strength from improvement in scale of operations along with profitability. The improvement in profitability is on account of decreasing reliance on subcontracting. RIL has moderate capital structure and debt coverage ratios due to no exposure to term loan as the company is under restructuring process and majority of the projects are inhouse which further lower its dependency on working capital limits. Further, RIL has the comfortable orderbook position with moderate sectorial diversification and geographical concentration.

Rating sensitivities

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

- Improvement in operating scale and operating profit margin with deviation less than 10% of estimates for FY23.
- Realization of investments, loans advances to road assets leading to improvement in risk profile

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

- Deterioration in liquidity due to stretched working capital cycle.
- Delay in execution of projects through SPVs within the envisage timelines and costs.

Detailed description of the key rating drivers

Key rating weaknesses

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.

This apart, the company has corporate guarantee exposure of Rs 1440 crore towards Sringar 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. The above said orders will generate revenue of Rs 1399 crore in the next 3 years and at the same time, RIL must infuse equity/unsecured loans to the extent of Rs.841 crore in FY23 and FY24.

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

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 rating strengths

Comfortable orderbook position concentrated with in-house/group orders: Order book of RIL stood comfortable at Rs 9320 crore as on March 31,2022. The same translates to healthy order book to Total Operating Income (TOI) ratio of 3.47x (i.e excluding O&M revenue realizable in 15-20 years, order book stands at Rs 4506 crore). In-house/group orders are concentrated with 78.35% (Rs 7302 crore) of the total order book of Rs 9320 crore and balance orders are from market through bidding. Company has orders of about Rs 487 crore, which are being executed in slower pace, due to various reasons such as delay in land acquisition, design approval and statutory approvals etc. During Q1FY23, the company has received order worth of Rs 336.41 crore.
Of the total orders Rs 4506 crore, Rs 2497 crore (55%) of orders are funded from entities such as HMWSSB through grant, grant from VPCL (Visakha Pharmacity Limited) and RIL having low counterparty credit risk followed by balance orders from state and central government institutions. Wherever, equity commitments from RIL are envisaged for the orders, timely execution within the envisaged costs are crucial from credit perspective.

Moderate sectoral diversification and geographical concentration: Order book is moderately diversified with industrial segment comprising 58.46% followed by Water & Wastewater of 24.01%, Building of 13.52%, Roads & Bridges of 3.85% and Power & irrigation of 0.16%. The company's operations are spread across 20 states in India, however majority of the orders of about 84% are concentrated in Andhra Pradesh with 55.76% followed by Telangana at 23.12% and Karnataka at 4.50%.

Moderate reliance on subcontracting with healthy asset base: The raw material cost and sub-contracting cost form 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 213 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 scale of operations along with profitability: Improvement in scale of operations to Rs 1298 crore in FY22 as against Rs 912 crore in FY21 is primarily due to recovery from the impact of covid and execution of contracts on hand, with 25% (Rs 326 crore) from O&M revenue and balance 75% (Rs 971 crore) from EPC works and which is expected to continue the trend going forward.
The operating profit margin (PBILDT) has improved significantly to 22.65% for FY22 as against the 10.90% in FY21, is primarily due to contribution of higher margin from O&M segment and in-house/group EPC works, which is expected to maintain considering majority of the existing orders are from in-house/group entities.

Moderate capital structure and debt coverage ratios: Post restructuring, the company has been reducing the debt, currently, the company has nil term loan exposure to bank/FIs. Further, the fund based working capital limits are also being reduced from the surplus generated from cash flows. The overall gearing stands moderated at 1.20x as on March 31,2022 (P.Y FY:21 1.47x) is primarily due to accretion of profits.
Since majority of the orders are from in-house/group entities; the company relies mainly on mobilization 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 credit perspective.
Interest coverage stands improved to 3.05x for FY22 as against 1.32x for FY21 and Total Debt/PBILDT improved to 2.81x in FY22 as against 8.38x in FY21, which were achieved through improved level of operating margins.

Stable Industry outlook:
The construction industry contributes around 8% to India's Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. Enforcement of nationwide lockdown against the spread of Covid-19 pandemic has adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revives the investment cycle. Massive outlay of USD 1.97 trillion under The National Infrastructure Pipeline (NIP) and large budgetary allocation corroborate the same. Union budget 2021 allocates capital outlay of Rs. 5.5 trillion includes allocation of Rs. 1.2 trillion to Roads, Rs, 1.1 trillion to Railway, 0.69 trillion to Marine, 0.37 trillion to urban infrastructure. The same is expected to gradually result in increased order inflow and movement of passive orders in existing order book. The construction sector is

likely to grow at 10.7 percent in FY22 in a rebound from a contraction of 8.6 percent last year, according to the Ministry of Statistics and Programme Implementation.

Liquidity: Adequate
The adequate liquidity of the system is characterized by healthy generation of cash accrual of Rs 274 crore against nil term loan repayment obligation for FY22, primarily due to improved collection level due to majority of the revenue is from group/in-housework orders. The surplus funds were utilized to reduce the working capital limits, reduction in creditors in absolute level and funding the purchase of machinery/equipment. The company has free cash and bank balance of Rs 20 crore as on March 31,2022.
Since the company's debt were restructured, the existing lenders have been reducing the working capital limits, thereby the average fund based working limit continues to have almost 97% utilization (reduced from Rs 306.17 crore as on March 31,2021 to Rs 268.17 crore as on March 31,2022). However, the average non-fund-based utilization stands at 47% for the trailing 12 months ending March 31,2022, despite reduction in limits (Rs 873.65 crore as on March 31,2021 to Rs 497.54 crore as on March 31,2022), providing sufficient cushion for bidding new projects. RIL can manage the working capital requirement due to majority of the projects are from in-house/group entities, which is expected to continue in future operations.

Analytical approach: Standalone
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

About the company
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 30,2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(UA)
Total operating income	912.22	1,298.04	326.02
PBILDT	99.46	293.96	82.63
PAT	53.95	118.37	49.25
Overall gearing (times)	1.47	1.20	NA
Interest coverage (times)	1.32	3.05	5.04

A: Audited UA: Un Audited NA: Not Available

Status of non-cooperation with previous CRA: CRISIL -Issuer non-cooperation (vide PR dated on 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 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	268.17	CARE BB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	497.53	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 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	Fund-based - LT-Cash Credit	LT	268.17	CARE BB-; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	497.53	CARE BB-; Stable / CARE A4				

*Long term/Short term.

Annexure-5: Bank lender details for this company

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

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

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

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.

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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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