

Rithwik Projects Private Limited

April 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	443.00 (enhanced from 397.45)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB- [Credit Watch with Negative Implications] (Triple B Minus; Credit Watch with Negative Implications)
Long/Short-term Bank Facilities	1624.45 (reduced from 1670.00)	CARE BBB-; Negative/CARE A3 (Triple B Minus; Outlook: Negative/A Three)	Revised from CARE BBB- /CARE A3 [Credit Watch with Negative Implications] (Triple B Minus/ A Three; Credit Watch with Negative Implications)
Total Facilities	2,067.45 (Rs. Two Thousand and Sixty Seven crore and Forty Five lakh only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rithwik Projects Private Limited (RPPL) continue to draw strength from experienced promoters, satisfactory track record in execution of projects and healthy order book position with escalation clause in place for majority of orders. The ratings also factor in growth in total operating income and improvement in profitability margins during FY18 (refers to period from April 01 to March 31). The rating are, however, constrained by, elongated working capital cycle, moderate liquidity position, high dependence on sub-contracting works, leveraged capital structure and weak debt coverage indicators, tender based nature of business and presence of the company in a highly competitive construction industry. Ability of the company to execute the orders in hand and recover contract proceeds in a timely manner, improve the liquidity while effectively managing its working capital requirements are the key rating sensitivities.

Outlook: Negative

The negative outlook reflects company's stretched operating cycle resulting in widening of working capital gap with significant amount of receivables under arbitration, which if not realized in the near term may impact liquidity profile of the company.

Detailed description of the key rating drivers
Key Rating Strengths

Growth in total operating income and improvement in profitability margins: The total operating income of the company improved by 6.08% from Rs.1,360.04 crore during FY17 to Rs.1442.79 crore during FY18 on account of increased order inflow, particularly from the road and railway segment and execution of same. The PBILDT margin of the company also improved from 9.99% during FY17 to 11.48% during FY18 on backed by better absorption of overheads. During H1FY19 (UA), the company reported a stable total operating income and PAT of Rs.594.61 crore and Rs.22.60 crore respectively.

Experienced promoters with established track record: RPPL has been promoted by Mr C M Ramesh along with family members as a closely held public limited company in the year 1999. Over the years, RPPL executed various infrastructure projects for state government and public sectors units' viz. THDC India Ltd. (erstwhile Tehri Hydro Power Development Corporation), Konkan Railway Corporation Ltd., National Projects & Construction Company Ltd. Steel Authority of India Ltd, Government of Andhra Pradesh (GoAP), Government of Jammu and Kashmir (GoJ&K), besides others. Mr Ramesh has an experience of over a decade in the infrastructure development segment and has over the years established strong relation with several other construction players (both public and private).

Healthy albeit moderately concentrated order book: The company had an outstanding order book of Rs.4382.74 crore as on January 31, 2019 (Rs.4760.67 crore as on July 01, 2017) which translates to 3.04x of the gross billing for FY18 thereby providing revenue visibility in the medium-long term. However, the order book of the company remains concentrated with most of the projects pertaining to irrigation and roads.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Stable industry outlook: The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run. The government has undertaken several steps for boosting the infrastructure development and this has gradually resulted in increased order inflow and movement of passive orders in existing order book. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies. The implementation of Goods and Service Tax might result in short run operational issues and pressure on working capital until the process is streamlined. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

Key Rating Weaknesses

High dependence on sub-contracting works

The company had high reliance on subcontractors for land moving and other heavy construction equipment; accordingly, the subcontracting expenses mark around 20-40% of total cost of sales. However, with significant addition of equipment over the years, company is aiming to limit the dependence on subcontractors going forward, which is expected to improve the operating profitability margins.

Leveraged capital structure along with weak debt coverage indicators: The overall gearing of the company although has been improving over the last three years, has remained moderate at 1.86x as on March 31, 2018 (as against 2.05x as on March 31, 2017) primarily driven by accretion of profits to reserves. Given relatively high debt level vis-à-vis profit generated, the debt coverage indicators of the company, although improved, continue to remain weak with total debt to GCA at 10.25x during FY18 (FY17:13.76x) and interest coverage ratio at 1.81x during FY18 (FY17: 1.63x).

Elongated operating cycle and moderate liquidity: The operating cycle of the company remained elongated at 112 days during FY18 because of high inventory period (that primarily includes unbilled revenue) and receivable days. Further, significant amount of receivables in the form of retention money and security deposits is pending from various government departments' resulting in stretched liquidity for the company. The average working capital utilization of the company for the twelve months period ended February 28, 2019 remained almost 100%.

Intense competition along-with risks associated with tender based nature of business: RPPL receives all its work orders primarily from government departments. These orders are tender-based and the revenues are dependent on the company's ability to bid as well as successfully execute these projects. Profitability margins come under pressure because of this competitive nature of the industry. However, the promoters' long industry experience mitigates this risk to some extent.

Analytical Approach: Standalone.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Service Sector Companies](#)

[Financial Ratios - Non-Financial Sector](#)

About the Company

Incorporated in March 1999, Rithwik Projects Private Limited (RPPL) is an ISO 9001:2008 certified infrastructure Development Company providing integrated engineering, procurement and construction (EPC) services for civil & structural construction and infrastructure sector projects. Majority of projects of the company are irrigation related projects spread across six states including Andhra Pradesh, Madhya Pradesh, Chhattisgarh, Karnataka, Gujarat and Uttarakhand.

The promoters; Mr. CM Ramesh & Mr. CM Rajesh, hold the majority shareholding. PE player, Baring Private Equity also invested in the company during FY09 and holds equity stake of about 7.89% in the company.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,360.04	1,442.79
PBILDT	135.91	165.61
PAT	35.61	52.77
Overall gearing (times)	2.05	1.86
Interest coverage (times)	1.63	1.81

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	February 01, 2022	246.09	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	196.91	CARE BBB-; Negative
Non-fund-based - LT/ST-BG/LC	-	-	-	1624.45	CARE BBB-; Negative / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	246.09	CARE BBB-; Negative	1)CARE BBB- (Under Credit watch with Negative Implications) (18-Oct-18)	1)CARE BBB-; Stable (21-Dec-17) 2)CARE BB; Stable (05-Oct-17)	1)CARE BB; Stable (03-Mar-17) 2)CARE BB (11-Nov-16)	1)Suspended (29-Mar-16) 2)CARE BB (15-May-15)
2.	Fund-based - LT-Cash Credit	LT	196.91	CARE BBB-; Negative	1)CARE BBB- (Under Credit watch with Negative Implications) (18-Oct-18)	1)CARE BBB-; Stable (21-Dec-17) 2)CARE BB; Stable (11-Nov-16)	1)CARE BB; Stable (03-Mar-17) 2)CARE BB (11-Nov-16)	1)Suspended (29-Mar-16) 2)CARE BB (15-May-15)

						(05-Oct-17)		
3.	Fund-based - LT-Working capital Term Loan	-	-	-	-	-	1)CARE BB; Stable (03-Mar-17) 2)CARE BB (11-Nov-16)	1)Suspended (29-Mar-16) 2)CARE BB (15-May-15)
4.	Fund-based - LT-Funded Interest term Loan	-	-	-	-	-	1)CARE BB; Stable (03-Mar-17) 2)CARE BB (11-Nov-16)	1)Suspended (29-Mar-16) 2)CARE BB (15-May-15)
5.	Non-fund-based - LT/ST-BG/LC	LT/ST	1624.45	CARE BBB-; Negative / CARE A3	1)CARE BBB- / CARE A3 (Under Credit watch with Negative Implications) (18-Oct-18)	1)CARE BBB-; Stable / CARE A3 (21-Dec-17) 2)CARE BB; Stable (05-Oct-17)	1)CARE BB; Stable (03-Mar-17) 2)CARE BB (11-Nov-16)	1)Suspended (29-Mar-16) 2)CARE BB (15-May-15)

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