

Rithwik Projects Private Limited

September 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	-	-	Revised to CARE BB; Stable (Double B; Outlook: Stable) from CARE D; ISSUER NOT COOPERATING (Single D; Issuer Not Cooperating) and withdrawn
Long-term/Short-term Bank Facilities	-	-	Revised to CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four) from CARE D; ISSUER NOT COOPERATING (Single D; Issuer Not Cooperating) and withdrawn
Total Facilities	-		

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

CARE has revised the ratings outstanding for the bank facilities of Rithwik Projects Private Limited (RPPL) and simultaneously withdrawn the ratings with immediate effect. The above action has been taken at the request of Rithwik Projects Private Limited and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The revision in the ratings assigned to the bank facilities of Rithwik Projects Private Limited takes into account significant improvement in the liquidity profile with recovery of an amount of Rs.450.0 crore against arbitration claims from Tehri Hydro Development Corporation Ltd. (THDCL) which has subsequently resulted in regularization of debt servicing. This apart, there have been recovery of Bank Guarantees from pre-closed projects awarded by the State Government of Andhra Pradesh which together with the arbitration proceeds have shored up the working capital position of the company. RPPL has also received few large sized orders from reputed clients which has improved the order book position as well as medium term revenue visibility. The ratings continue to derive strength from the experienced promoters and established track record in execution of projects.

The rating strengths are, however, tempered by the subdued financial performance during FY19-20 (refers to period from April 01 to March 31), various slow moving orders in the order book, term debt repayment obligation resulting in weak debt coverage metrics and presence of the company in a highly competitive industry. While the company has various plans of cash inflow through asset monetization and realization of funds from the arbitration awards in favour of the company, the fructification of same in a timely manner would be important for maintaining the liquidity profile.

Detailed description of the key rating drivers**Key rating strengths:**

Improvement in liquidity position and regularization of debt servicing: RPPL had filed escalation claims against Tehri Hydro Development corporation Ltd. (THDCL) w.r.t hydro power project executed at Koteswar in the State of Uttaranchal with project completed in 2012. The matter remained unresolved and was filed for arbitration which was awarded in favour of RPPL. However, THDCL had contested the award of Arbitration in Hon'ble High Court of Delhi and after 8 years of defending THDCL confirmed the claim amounting to Rs.986 crore as on that date to Hon'ble Court, as per the award (against claim of JV of Rs.1,200 crore including accumulated interest). Out of same, the High Court of Delhi had directed THDCL to deposit an amount of Rs.450 crore which the company has received in April 2020 on submission of bank guarantee of equivalent amount. The recovery of such long pending claims has subsequently resulted in significant improvement in the liquidity profile and regularization of the debt servicing by the company. Apart from clearing overdues, the cashflow proceeds have been utilized to release the mobilization advance bank guarantees given for various projects. This apart, there have been foreclosure of projects executed for the State Government of A.P. and BG submitted for the projects have been released. Hence cumulatively this has shored up the working capital position of the company.

Receipt of new work orders with satisfactory order book position: RPPL had an outstanding order book position of Rs.6,140.20 crore as on June 30, 2020. The company has received new orders aggregating approximately Rs.3300 crore which has improved the order book position and provides revenue visibility for the next 2.5-3 years based on gross billing for FY20. The new work orders comprises order for railway works and specifically from Rail Vikas Nigam Limited (27% of the order book). The order book is spread across different regions of India with higher concentration in Maharashtra (48% of total order book) followed by Uttarakhand (29%) and Andhra Pradesh (22%) among all the other states.

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

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. The Promoters have an experience of nearly two decades in the infrastructure development segment.

Key rating weakness:

Subdued financial performance in FY19-20: The total operating income of the company decreased by about 6% in FY19 (from FY18) and 24% in FY20 (from FY19) from Rs.1442.79 crore in FY18 to Rs.1021.40 crore in FY20 (Prov.) on account of execution at slow pace of the existing order book position due to A.P. Government putting stay on orders executed less than 25%. This apart, the lockdown due to COVID-19 also impacted the booking of revenue during year end resulting in further decrease in revenue for the year FY20. With reduced revenue, the profit level and cash accruals have also declined in FY20 due to various reasons including the reasons like election code etc.

High dependence on sub-contracting works: Sub-contracting expense of RPPL account on an average for about 75% of the total cost of sales during the last 3 years. However, during FY20, the sub-contracting expenses to total cost of sales have decreased to 56.34% and similarly, the raw material expenses to total cost of sales have increased to 35.46% (avg. 18.14% for past 3 years) indicating that the company has increased executing the projects by its own resources and is decreasing dependency on the sub-contracting, however, it still continues to be dependent on sub-contracting works.

High term debt repayment obligation: RPPL has a moderately leveraged capital structure with overall gearing ratio at 1.62x as on March 31, 2020 (although improved from 1.92x as on March 31, 2019) on account of accretion of profit, although debt levels now reduced due to receipt of arbitration funds in the current FY as projected by Company. Given the relatively high debt level vis-à-vis profit generated, the debt coverage indicators of the company continues to remain weak with total debt to GCA at 14.10x during FY20 (FY19: 13.58x) and interest coverage ratio at 1.73x during FY20 (FY19: 1.76x). The company has term debt repayment obligation for FY21 against which the cash accruals are tightly matched While the company has two other arbitration awards in their favour and has also proposed monetization of its solar power asset, timely fructification of said plans would be important to manage the liquidity.

Elongated operating cycle: The company has elongated operating cycle which further extended to 167 days in FY20 vis-à-vis 122 days in FY19 and 112 days in FY18 on account of high inventory period and collection period. The high inventory period is on account of increased inventory levels as on March 31, 2020 due to slow execution of orders along with increase in raw material levels at different project sites due to large order sizes. Similarly, the receivables also increased due to increase in regular debtors along with retention money pending from various government departments.

Impact of COVID-19: Due to the lockdown on account of COVID-19, the operations of RPPL were impacted due to migration of labour leading to halt in execution at all major project sites. However, RPPL resumed the operation by retaining some migrant labours by providing them food and accommodation and executed few projects during Q1FY21.

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. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had 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 revive the investment cycle. Although, the situation was expected to improve in 2020 due to various government initiatives, but the Covid-19 outbreak and the containment measures taken by government will affect the construction industry in the short-term. This apart, the entry and exit barriers in construction industry are low as the industry has many organized as well as unorganized players and industry is highly fragmented. As a result of this there is intense competition among industry players.

Liquidity: Stretched

The liquidity position of the company although has improved post recovery of arbitration proceeds, continues to remain stretched due to debt repayment obligation in FY21 and tightly matched cash accruals. The company expects cash inflow through receipt of arbitration claim against NTPC Ltd. & SAIL Ltd and also monetization of its 5 MW solar power plant (by December 2020) which would be crucial to manage the liquidity. RPPL has availed moratorium from few lender for the period March 2020 to August 2020. Furthermore, the average utilization of working capital limits is 95% during last six months

period ended in August 2020. The company had cash and bank balance of about Rs.6.05 crore as on August 17, 2020 and FDR of Rs.128 crore with Lenders which is lien marked against arbitration BGs.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Construction Sector](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Rithwik Projects Private Limited (RPPL) was incorporated in March 1999 and belongs to Rithwik group of Hyderabad. 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.

The promoters; Mr C M Ramesh & Mr C M Rajesh, hold the majority shareholding. PE player, Baring Private Equity invested in the company during FY08 and holds equity stake of 28.70% in the company.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	1349.36	1021.41
PBILDT	155.94	137.66
PAT	46.42	34.56
Overall gearing (times)	1.92	1.62
Interest coverage (times)	1.76	1.73

A: Audited; Prov.: Provisional

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 instrument/facilities is given in Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn at CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn at CARE BB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	0.00	Withdrawn at CARE BB; Stable/CARE A4

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE D; ISSUER NOT COOPERATING* (26-Dec-19) 2)CARE BBB-; Negative (03-Apr-19)	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)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE D; ISSUER NOT COOPERATING* (26-Dec-19) 2)CARE BBB-; Negative (03-Apr-19)	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)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ ST	-	-	-	1)CARE D; ISSUER NOT COOPERATING* (26-Dec-19) 2)CARE BBB-; Negative / CARE A3 (03-Apr-19)	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)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities – NA

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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