



## Press Release

### RITES Limited

January 20, 2023

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	1265.00	-	IVR AAA/ Stable (IVR Triple A; with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	0.00	IVR A1+ (IVR A One Plus)	-	-	Simple
<b>Total</b>	<b>1265.00</b>	<b>Rupees One Thousand Two Hundred Sixty Five Crores Only</b>			

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has assigned long-term rating to IVR AAA with a Stable outlook and removal of short-term rating of IVR A1+ for the bank loan facilities of RITES Limited (RL). The long-term rating has been assigned as the Bank Guarantee tenure is more than 1 year, therefore short-term rating can't be assigned/reaffirmed.

The rating continues to draw comfort from the strong promoters and experienced management, diversified revenue profile, strong order book position, low counterparty risk due to its reputed clientele and comfortable debt protection metrics and financial risk profile during FY2022 and H1FY23. However, these strengths are partially offset by exposure to foreign exchange risk and decline in profitability margins.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes RL will continue to benefit from its operational track record in the business, its parentage with Indian Railways and continuous inflow of orders. The industry outlook is improving as economies transit from fossil fuel-based energy to renewable energy sources, green infrastructure emerges as an important instrument for the overarching goal of the transport framework.

IVR has principally relied on the standalone audited financial results of RL upto 31 March 2022, H1FY23 and projected financials for FY23, FY24 and FY25, and publicly available information/ clarifications provided by the company's management.



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### Key Rating Sensitivities:

#### Upward Factors

- Not Applicable

#### Downward Factors

- Significant decline in order book thus adversely impacting the revenue visibility
- Deterioration in debt protection metrics and overall gearing

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Strong promoters and experienced management:**

RITES Limited (RL), a Mini Ratna is promoted by Ministry of Railways, Government of India (Gol) and has the benefit of being associated with Indian Railways, which is among the largest rail networks in the world. By virtue of being a public sector undertaking, RITES has established business relationships with several central and state government ministries, departments, corporations and public sector undertakings (PSU) which helps it in getting projects on nomination basis. RITES is also the only export arm of Indian Railways for providing rolling stock overseas. The Company is led by a well-qualified management team which has long standing experience in RITES/ other PSU's. The appointment of directors, both executive and non-executive are made by Gol.

- **Diversified revenue profile:**

In FY2022, it derived ~39.68% of its total revenue from providing consultancy services, ~17.88% from undertaking turnkey construction projects, ~37.60% from the export of rolling stock, and around ~4.84% from leasing services. Furthermore, the Company undertakes projects both domestically and abroad and its domestic operations contributed around ~58.34% to the revenue and remaining 41.65% from export market. The Company is likely to benefit from the diversification in its revenue profile over the medium term.

- **Strong order book position:**

It caters to both domestic as well as international markets and receive order on tender as well as nomination basis. The order book position stood healthy as on September 30, 2022, at ~Rs.4,907.00 Crores. Total unexecuted order book is proposed to be executed in next 2-3 years which provides revenue visibility over the medium term. Out of total tenders around 70% are based on competitive bidding and remaining 30% on nomination basis. IVR believes that RL will continue to secure a significant portion of such tenders under the bidding system by virtue of its long-standing experience in executing railway and other related projects.



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- **Low counterparty risk due to its reputed clientele:**

Several decades of operating in consultancy and engineering in transport infrastructure and related technologies and its parentage provides RL with substantial technical credentials, which makes it better placed for qualifying for future bids in domestic and international market. The beneficiaries of services of RL have sound financial risk profile and hence, have a comfortable and more predictable payment pattern, which leads to acceptable level of receivables for RL. RL undertakes projects for governments, government instrumentalities, public sector enterprises etc. Hence counter party risk is very low.

- **Comfortable debt protection metrics and financial risk profile:**

In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and debt service coverage ratio (DSCR) remained comfortable at 130.03x and 113.01x respectively in FY2022. The tangible networth improved to Rs. 2325.03 crore in FY2022 from Rs. 2278.31 crore in FY2021. Total operating income (TOI) stood at Rs. 2568.11 crore in FY2022. In H1FY2023 the TOI stood at Rs. 1210 crore.

### Key Rating Weaknesses

- **Decline in profitability margins:**

The operating profit margins and PAT margins in FY2022 have declined to 25.11% and 18.68% respectively from 25.73% and 21.79% respectively in FY2021. The profitability margins have declined due to stiff competition in the market.

- **Exposure to foreign exchange risk:**

With a sizeable portion of sales derived from exports i.e., ~25.22% in FY2020, ~9.59% in FY2021 and ~41.65% in FY2022. RL's profitability remains exposed to foreign exchange currency fluctuations as it does not have hedging policy in place. In FY2022 and H1FY23, the company had total unhedged foreign currency exposure of Rs. 349.46 crore and Rs. 389.79 crore respectively as against the EBITDA of Rs.644.94 crore, which safeguard the margins to larger extent. Also, it has sizeable amount of networth to absorb any kind of shock. Furthermore, the significant proportion of exports in the total revenue is backed by letter of credit, hence, there are low risks of losses due to defaults.

**Analytical Approach:** For arriving at the ratings, IVR has analysed RL's credit profile by considering the standalone financial statements of the company.

### Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)  
[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)  
[Criteria for Assigning Rating Outlook](#)



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### **Liquidity – Strong**

The company liquidity position is strong. There are no fund-based borrowings from banks making it as a zero-debt company. The company projected to generate net cash accruals (after adjusting dividends) of Rs. 208-210 crore from FY2023-FY2025. The average utilization of non-fund based working capital limits of the company stood low at ~60.00% during last 12 months ending 31st December 2022. With the adequate expected cash accruals against repayments, the liquidity position will remain strong.

### **About the Company**

RITES Limited (RL) was incorporated in April 1974 as a multi-disciplinary consultancy organization operating in the fields of transport infrastructure and related technologies. RL is a Mini Ratna, Schedule-A, Category- I Public Limited company, with 72.20% shareholding held by the Government of India. RL provides a comprehensive array of services from consultancy to project execution both domestically and internationally. It is listed on BSE and NSE.

### **Financials (Standalone):**

(Rs. crore)

For the year ended as on	31-03-2021	31-03-2022	H1FY23
	Audited	Audited	Unaudited
Total Operating Income	1880.96	2568.11	1210.00
EBITDA	463.41	644.94	376.79
PAT	424.35	497.10	260.65
Total Debt	0.00	0.00	0.00
Tangible Networkth	2278.31	2325.03	2459.50
EBITDA Margin (%)	25.73	25.11	31.20
PAT Margin (%)	21.79	18.68	20.83
Overall Gearing Ratio (x)	0.00	0.00	0.00

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable



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### Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (03 January 2022)	Date(s) & Rating(s) assigned in 2020-21 (31 December 2020)	Date(s) & Rating(s) assigned in 2019-20 (03 January 2020)
1.	Non-Fund Based	Long Term	1265.00	IVR AAA/Stable (Assigned)	-	-	-
2.	Non-Fund Based	Short Term	0.00	-	IVR A1+	IVR A1+	IVR A1+

### Name and Contact Details of the Rating Analyst:

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### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy,



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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Bank Guarantee*	-	-	-	1265.00	IVR AAA/Stable

\*BG tenure is more than 1 year.

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Len-RITES-jan23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [Complexity Level of Rated Instruments/Facilities](#).