Rithwik Projects Private Limited

June 28, 2022

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity indicator
1.	Long Term Bank Facilities	325.87 (Enhanced from 320.00)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Revised from IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	Simple
2.	Short Term Bank Facilities	1774.13 (Reduced from 1780.16)	IVR A2 (IVR A Two)	Revised from IVR A3 (IVR A Three)	Simple
	Total	**2100.00 (Rupees two thousand one hundred crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Rithwik Projects Pvt Ltd (RPPL) takes into account its strong order book reflecting satisfactory near to medium-term revenue visibility with expected improvement in liquidity position backed by expected inflow of funds from favourable outcome of one of the pending arbitrations in favour of the company. Further, the ratings also continue to consider its experienced promoters with high operational efficiency backed by owned fleet of equipment's, reputed clientele with proven project execution capability, stable financial performance and its comfortable capital structure. However, these rating strengths continues to remain constrained due to susceptibility of its operating margin to volatile input prices, exposure to customer concentration risk, tender based nature of its business with intense competition in the industry and working capital intensive nature of its operation.

Key Rating Sensitivities

Upward Factors:

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in liquidity.
- Sustenance of the capital structure with improvement in debt protection metrics.

- Steady flow of orders & timely execution of the same on a sustained basis.

Downward Factors:

- Moderation in scale of operations and/or profitability impacting the liquidity profile on a sustained basis.
- Moderation in the capital structure with moderation in the overall gearing to over 1x
- Elongation in working capital cycle, with increase in working capital intensity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management**

  RPPL is promoted by Mr. C.M. Rajesh who has a long-standing experience in the civil construction sector. He is at the helm of affairs of the company with about two decades of experience. Under the leadership of Mr. C. M. Rajesh the company has exhibited satisfactory growth over the years. The company has acquired strong engineering acumen in irrigation projects through its successful operations over the years.

- **Reputed clientele with proven project execution capability**

  Over the years, the company has successfully completed many projects across the state for various medium to large government companies and departments. The company has major focus in executing irrigation projects (mainly in dam, tunnel making). RPPL bids for tenders floated by various government entities. The repeat orders received from its clientele validate its construction capabilities. In order to manage the projects in a better way and to grow in a balanced way, the company handles limited number of projects at a time to ensure timely completion.

- **Majority of fleet of equipment is owned by RPPL, leading to operational efficiency**

  RPPL has continuously added to its fleet of plant and machinery to complete the orders on time. The company has a large fleet of owned equipment including dumpers, tankers, crushers, transit mixers, loaders etc.

- **Strong order book reflecting satisfactory medium-term revenue visibility**

  The order book position of RRPL has grown significantly during the year. As on March 31, 2022, RRPL has an unexecuted order book of about Rs.21222.23 crore, with orders across fifty-one contracts which is about 18.84 times of its FY22 (provisional) construction revenue (i.e.Rs.1126.62 crore). Out of the total orders of Rs.21222.23 crore, the orders worth Rs.11329.91 crore is for development of operation of coal mine from NMDC Ltd and NTPC Ltd, which is a 25-year contracts. Apart from the other the orders are expected to be completed within next four to four and half years, indicating a satisfactory near to medium term revenue visibility. Apart from the unexecuted order book of Rs.21,222.23 crore as on March 31, 2022, RPPL has also participated in 16 tenders amounting to Rs. 29,070 crore of which the company is confident to bag at least 20% of the bid amount.

- **Stable financial performance**

RPPL's total operating income has been stagnant as the topline stood at Rs.1126.62 crore in FY22 provisional with a marginal improvement of 0.24% against Rs. 1123.62 crore in FY21. Driven by marginal improvement in operating income, absolute EBITDA has increased from Rs.148.53 crore in FY21 to Rs.151.54 crore in FY22 provisional. The EBITDA margin has also improved slightly from 13.21% in FY21 to 13.45% in FY22 (provisional). Further, backed by reduced finance charges in FY22, the PAT margin has also improved and stood at 4.19% against 3.94% in FY21. Gross cash accruals has also improved and stood at Rs.74.30 crore in FY22. The company has received favourable verdict in its pending arbitration with SAIL during Q1FY23 which is expected result in cash inflow for the company and will support its liquidity.

- **Comfortable capital structure**

The capital structure though moderated marginally as indicated by the overall gearing of 0.63x as on March 31, 2022, against an overall gearing of 0.39x as on March 31, 2021 continued to remain satisfactory. Further, total indebtedness of the company as reflected by TOL/TNW has also moderated marginally and stood at 2.20x as on March 31, 2022 (Provisional) against 2.07x as on March 31, 2021. However, the Interest coverage ratio has improved in FY22 (provisional) and remain comfortable at 2.33x (1.70x in FY21) on account of decline in interest expense coupled with increased EBITDA.

B. Key Weaknesses

- **Customer concentration risk**

The company is exposed to customer concentration risk as the major portion of the projects in the order books are from two customers. Moreover, the present order book is skewed towards road and tunnel construction related projects indicating a sectorial concentration risk.

However, the company has adequate experience in order to execute projects in the state of Uttarakhand, Maharashtra and Andhra Pradesh which provide a comfort.

- **Susceptibility of operating margin to volatile input prices**

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause (for raw materials) in most of the contracts protect the margin to an extent**.**

- **Tender based nature of business with intense competition in the industry**

The domestic construction sector is highly crowded with presence of many players with varied statures & capabilities. Further, RPPL receives all its work orders from government departments through tenders floated by the departments and based on its ability to secure these tenders amidst intense price war. Profit margin of the company may come under pressure because of this competitive nature of the industry. However, the promoters' long industry presence imparts comfort

- **Working capital intensive nature of operation**

Construction business, by its nature, is working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money. This apart, its clients are government departments/entities having various procedural requirements where payments are relatively slow. The Operating Cycle stood high at 142 days in FY22 driven by elongated average collection period 172 days and inventory period of 117 days. Despite the high trade receivables, comfort can be derived from the fact that the dues are from various government departments. Further, the company's creditor's period is also high as it tries to match the payments of its suppliers with its receipt of payments from debtors.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of RPPL is adequate with gross cash accruals of around Rs.74.30 crore during FY22 (Prov.) and it is expected to remain comfortable marked by its expected satisfactory cash accrual around~Rs.100 crore to Rs.153 crore during FY23-25 vis a-vis its debt repayment obligations ranging from Rs.76 crore to Rs.48 crore during the corresponding period. Further, on the back of its comfortable capital structure, the company has adequate gearing headroom and has adequate cushion in bank guarantee limits to secure new orders and necessary mobilization advances for its projects. The average CC utilisation during last 12 months ending in May 2022 remained moderate at ~66% which imparts sufficient liquidity buffer. Moreover, expected cash inflow from favourable arbitration result is also expected to support the liquidity position of the company in the near term.

About the Company

Incorporated in 1999, Hyderabad based Rithwik Projects Private Limited (RPPL) is engaged in construction of Irrigation projects, Construction of DAMs, Barrages, Spillways, Canals, Construction of Hydro Power Projects, Townships, Railway, Tunnels and Road Works.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	1123.96	1126.62
Total Income	1133.21	1133.48
EBITDA	148.53	151.54
PAT	44.65	47.53
Total Debt	185.84	327.25
Tangible Net worth	472.78	519.98
EBITDA Margin (%)	13.21	13.45
PAT Margin (%)	3.94	4.19
Overall Gearing Ratio (x)	0.39	0.63

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	180.00	IVR BBB+ / Stable Outlook	IVR BBB-; Stable Outlook (Sep 11, 2021)	IVR BBB-; Stable Outlook (Sep 09, 2020)	-
2.	Term Loan	Long Term	110.87	IVR BBB+ / Stable Outlook	IVR BBB-; Stable Outlook (Sep 11, 2021)	IVR BBB-; Stable Outlook (Sep 09, 2020)	-
3.	Bank Guarantee	Short Term	1650.50	IVR A2	IVR A3 (Sep 11, 2021)	IVR A3 (Sep 09, 2020)	-
4.	Proposed Cash Credit	Long Term	25.00	IVR BBB+ / Stable Outlook	-	-	-
5.	Proposed Term Loan	Long Term	10.00	IVR BBB+ / Stable Outlook	-	-	-
6.	Proposed Bank Guarantee	Short term	123.63	IVR A2	-	-	-

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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

Annexure 1: Details of Facilities`

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	180.00	IVR BBB+ / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	June 2023	110.87	IVR BBB+ / Stable Outlook
Short Term Bank Facilities- Bank Guarantee	-	-	-	1650.50	IVR A2
Proposed Cash Credit	-	-	-	25.00	IVR BBB+ / Stable Outlook
Proposed Term Loan	-	-	-	10.00	IVR BBB+ / Stable Outlook
Proposed Bank Guarantee	-	-	-	123.63	IVR A2

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Rithwik-Projects-june22.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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 www.infomerics.com.