

August 10, 2022

Tracks & Towers Infratech Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Working capital facilities-Cash credit	77.00	77.00	[ICRA]A (Stable); Reaffirmed
Non-fund based-Bank guarantee	410.00	415.00	[ICRA]A1; Reaffirmed
Cash credit#	(10.00)	(20.00)	[ICRA]A1; Reaffirmed
Unallocated limits	63.00	58.00	[ICRA]A (Stable); Reaffirmed
Total	550.00	550.00	

*Instrument details are provided in Annexure I

#Interchangeable with BG limits

Rationale

The ratings reaffirmation for Tracks & Towers Infratech Private Limited (TTIPL) factors in its reputed client profile and strong operational track record in executing railway works and its comfortable financial risk profile, characterised by low leverage with TOL/TNW of 0.6 times as on March 31, 2022 and strong interest coverage of 19.3 times in FY2022. The company recorded a healthy compounded annual growth rate (CAGR) of ~12% in revenues over the last five years to Rs. 745.5 crore in FY2022 from Rs. 427.5 crore in FY2018, driven by the ramp-up in order execution. ICRA expects the growth momentum to sustain, led by its healthy order book position of Rs. 1,552 crore as on May 31, 2022, which provides medium-term revenue visibility.

The ratings are, however, constrained by the project concentration risk with top five projects contributing 88% of the total order book as on May 31, 2022. Any slowdown in execution of major orders may significantly affect TTIPL's gross billings. The ratings also consider the high customer concentration risk with the top customer, Rail Vikas Nigam Limited (RVNL), accounting for ~94% of the outstanding order book as on May 31, 2022. Additionally, the stiff competition in the sector could have an adverse impact on the company's order inflow and remains a key rating monitorable. ICRA also notes that its sizeable capex plans and continued payouts to shareholders may limit the free cash flows and liquidity position to an extent. Nonetheless, the liquidity position is expected to remain comfortable on the back of low working capital intensity.

The Stable outlook on the long-term rating reflects ICRA's opinion that TTIPL will benefit from its healthy order execution and timely receipt of payments from its customers.

Key rating drivers and their description

Credit strengths

Healthy order book position provides medium-term revenue visibility – The company's order book remained healthy at Rs. 1,552 crore as on May 31, 2022 on account of fresh order addition and scope revision. The order book to operating income (of FY2022) ratio stands at 2.3 times, thereby providing healthy medium-term revenue visibility.

Strong revenue growth – The company recorded a CAGR of ~12% in revenues during FY2018-FY2022 to Rs. 745.5 crore in FY2022 from Rs. 427.5 crore in FY2018, driven by healthy order execution and addition. The share of revenues from the Government railway siding works increased to 88% in FY2022 from 20% in FY2015. TTIPL reported revenues of Rs. 234 crore in Q1 FY2023 and is expected to achieve more than Rs. 760 crore in FY2023.

Low working capital intensity – The company’s working capital intensity is low owing to timely receipt of payments from its customers and availing mobilization advances from customer. Further, it leads to minimal reliance on debt and the trend is expected to continue in the near term.

Comfortable financial profile with low leverage and strong coverage indicators – The company’s financial risk profile is comfortable with TOL/TNW of 0.6 times as on March 31, 2022 and strong interest coverage of 19.3 times for FY2022 owing to low debt levels.

Credit challenges

High project and customer concentration risks – TTIPL is exposed to project concentration risk with top five projects contributing 88% of its outstanding order book as on May 31, 2022. Any slowdown in execution of major orders may significantly affect its gross billings. The company also faces high customer concentration risk with RVNL contributing ~94% of its outstanding orders as on May 31, 2022. The same is mitigated to an extent by the strong credit profile of its key customer.

High sector concentration risk – The company mainly undertakes railway siding and building project works. However, more than 95% of the revenue were generated from the railway siding segment in FY2022, which is expected to continue in the near term as depicted from the current order book position.

Stiff competition in railway segment to constrain order addition and margins – The company faces intense competition in the sector, which may have an adverse impact on its order inflow and operating margins. The new order addition declined to Rs. 551.5 crore in FY2022 and the extent of order addition remains a key rating monitorable. TTIPL’s margins are also exposed to increase in input costs, which is mitigated to some extent by the presence of price escalation clauses as a part of the order agreement.

Liquidity position: Strong

TTIPL’s liquidity position is strong with healthy cash flow from operations and free cash balances of Rs. 56.9 crore as on March 31, 2022 and nil utilisation of working capital limits. The liquidity is supported by low debt repayment obligations and moderate capex of Rs. 20.0 crore in FY2023.

Rating sensitivities

Positive factors – ICRA may upgrade TTIPL’s ratings if there is a significant ramp-up in scale with project diversification while maintaining its profitability, debt coverage metrics and liquidity position.

Negative factors – ICRA may downgrade TTIPL’s ratings in case of sustained pressure in order inflow and execution, material decline in billing resulting in subdued cash accruals. Also, any elongation in working capital cycle or significant debt-funded capex or increase in payouts to shareholders resulting in weakened liquidity position would be a negative trigger. Specific credit metrics that would lead to a rating downgrade will include TOL/TNW increasing beyond 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Set up in 1983 as a partnership firm by Mr. Ravi Kumar, M/s. Lakshmi Agencies was subsequently converted into a private limited company in FY2008 and renamed as Tracks & Towers Infratech Private Limited. TTIPL is a special class civil contractor undertaking projects broadly in four major segments—railway siding for public sector undertakings (PSUs), railway siding for private, Government building projects and projects from the Indian Railways. Over the last six years, it has shifted from private railway siding works to track laying works for the Indian Railways and siding works for public sector units. TTIPL's key clients include RVNL, RITES Ltd (on behalf of National Thermal Power Corporation (NTPC) Limited), Ircon International Ltd and various railway divisions.

Key financial indicators

Essvy- Standalone	FY2021	FY2022
	Audited	Provisional
Operating income (Rs. Crore)	585.2	745.5
PAT (Rs. Crore)	37.7	44.7
OPBDIT/OI (%)	10.4%	8.9%
PAT/OI (%)	6.4%	6.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	12.2	19.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. Crore)	Amount Outstanding as on March 31, 2022 (Rs. Crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	
							Aug 10, 2022	Aug 06, 2021	Sep 03, 2020	Apr 03, 2020
1	Cash credit	Long-term	77.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)
2	Bank guarantee	Short term	415.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-	-
3	Cash credit#	Short term	(20.0)	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+		
4	Unallocated	Long-term	58.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)

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Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based-Cash credit	Simple
Non-fund based-Bank guarantee	Very Simple
Cash credit	Simple
Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	77.00	[ICRA]A (Stable)
NA	Bank guarantee	NA	NA	NA	415.00	[ICRA]A1
NA	Cash credit#	NA	NA	NA	(20.0)	[ICRA]A1
NA	Unallocated	NA	NA	NA	58.00	[ICRA]A (Stable)

Source: Company;

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[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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