August 04, 2023

Tracks & Towers Infratech Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based - Cash credit	77.00	109.00	[ICRA]A (Stable); reaffirmed/ assigned for enhanced amount
Short term: Non-fund based - Bank guarantee	415.00	-	-
Long-term/Short-term: Non-fund-based - Bank guarantee	-	445.0	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed/ assigned for enhanced amount
Short-term: Cash credit#	(20.00)	(20.00)	[ICRA]A1; reaffirmed
Long-term: Unallocated	58.00	-	-
Long-term: Proposed fund-based limits	-	127.0	[ICRA]A (Stable); reaffirmed/ assigned for enhanced amount
Long-term/Short-term: Proposed non-fund based limits	-	119.0	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed/ assigned for enhanced amount
Total	**550.00**	**800.00**	

**Instrument details are provided in Annexure-I; #-Sublimit*

Rationale

The ratings reaffirmation for Tracks & Towers Infratech Private Limited (TTIPL) factors in the healthy order book position of Rs. 1,732 crore as on March 31, 2023 providing medium-term revenue visibility. The order book position and revenues are expected to improve with receipt of Rs. 1,206-crore road work for the recently received hybrid annuity mode (HAM) project in joint venture (JV) with Rail Vikas Nigam Limited (RVNL). The ratings continue to favourably note the company's comfortable financial profile as reflected by low leverage with TOL/TNW of 0.4 times as on March 31, 2023, and strong interest cover of 17.3 times in FY2023. The ratings draw comfort from the strong operational track record in executing railway works and established relations with the key client RVNL, and Indian Railway. ICRA has considered the receipt of another HAM project with an equity outlay of Rs. 100.0 crore resulting in total equity commitment of Rs. 221.0 crore during FY2024-FY2026. With healthy cash free balances, low utilisation of the working capital facility and cash flows from operations, TTIPL is adequately placed to infuse the requisite equity for these two projects. Going forward, any significant increase in development projects resulting in higher-than-expected equity commitment, which adversely affects its liquidity position, will remain a key monitorable.

The ratings are, however, constrained by the project concentration risk with top five projects contributing 86% of the total order book as on March 31, 2023. 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 two customers, RVNL and Northeast Frontier Railway accounting for ~88% of the outstanding order book as on March 31, 2023. It also remains exposed to high sectoral concentration risk with majority of the order book consisting of railway works. Given the recent moderation in railway related order inflows, the company's ability to sustain a healthy order book and improve order inflow remains a key rating monitorable. The ratings factor in TTIPL's limited experience in road project execution. However, its track record of completing the prior projects in a timely manner will mitigate the risk to an extent.

Moreover, any material increase in exposure to build-operate-transfer (BOT) projects entailing equity commitment higher than ICRA's estimate could pressurise its cash flows and credit profile, and remains a key rating sensitivity. TTIPL has bought back shares worth Rs. 13.1 crore and invested Rs. 30 crore in a group entity in FY2023. ICRA notes that its payouts to shareholders and moderate capex plans 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 its 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 – TTIPL's order book remained healthy at Rs. 1,732.3 crore as on March 31, 2023 on account of order addition and scope revision. The order book to operating income (OI) ratio was 2.31 times of its OI in FY2023, thereby providing medium-term revenue visibility. Further, the company is expected to receive Rs. 1,206-crore EPC work order for the recently won HAM project supporting its order book and revenues.

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

Comfortable financial profile – The company's financial profile is comfortable with limited dependence on external borrowings and healthy debt coverage metrics with interest coverage of 17.3 times and TOL/TNW of 0.4 times in FY2023. With cash flows expected to remain healthy in the medium term, the debt coverage metrics are likely to remain comfortable.

Credit challenges

Sizeable equity commitments for HAM projects – TTIPL has received a hybrid annuity mode (HAM) road project in JV with RVNL. ICRA has considered the receipt of another HAM project with an equity outlay of Rs. 100.0 crore resulting in total equity commitment of Rs. 221.0 crore during FY2024-FY2026. Given the different risk rewards in HAM projects (as compared to EPC project), long-term capital commitment and its limited track record in executing BOT as well as road projects, the company's ability to execute the projects, in a timely manner, within the envisaged costs would remain a key rating monitorable.

Risks pertaining to the execution of BOT-HAM road project – The development of the new highway project under HAM model will entail equity investments. In addition, TTIPL is likely to guarantee the term loan to be availed by the special purpose vehicle (SPV) till the receipt of the first annuity and provide support for cost overruns or cash flow mismatches. Any further exposure to development projects (under BOT/HAM model), which increases the company's funding commitments and adversely impacts its liquidity position would remain a key rating monitorable. TTIPL has limited experience in road project execution. However, its track record of completing the prior projects within the stipulated time manner will mitigate the risk to an extent.

High sector, customer, and project concentration – TTIPL's order book is highly concentrated in terms of clients, project and segments. The top 3 customers accounted for 93.6% of the outstanding order book as on March 31, 2023. Although the company has railway siding, road and building project works, more than 99% of the revenue was generated from the railway siding segment in FY2023 and is expected to diversify in the near term on execution of road works. Besides, the top 5 projects accounted 84% of the pending order book as on March 31, 2023. Nonetheless, TTIPL's satisfactory project execution track record mitigates these risks to an extent.

Liquidity position: Adequate

TTIPL's liquidity position is adequate with healthy cash flow from operations and free cash balances of Rs. 58.3 crore and low utilisation of working capital limits as on March 31, 2023. The liquidity is supported by low debt repayment obligations and moderate capex plans in FY2024 towards purchase of construction equipment. The company is expected to infuse over ~Rs. 221.0 crore in HAM projects over 2-3 years and its cash flows would be sufficient for the same.

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 – Pressure on the ratings could arise in case of a slowdown in execution, order inflow, or deterioration in working capital intensity impacting its earnings. Further, higher-than-expected increase in HAM projects/Group companies affecting the financial profile could also exert pressure on the ratings. The ratings may also be revised downwards if TOL/TNW increases to over 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

The company was started as a partnership firm by Mr. Ravi Kumar, named Lakshmi Agencies, in 1983. It was subsequently converted into a private limited company in FY2008. TTIPL is a special class civil contractor. It has undertaken projects including earthwork excavations, building bridges, laying railway tracks. The company specialises broadly in two major segments - rail over bridges (ROBs) and railway sidings (constitutes majority of the present orders). 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, IRCON, RITES Limited, and various railway divisions. The order book as on March 31, 2023 stood at Rs. 1,732.3 crore (translating to OB/OI of 2.3 times its OI in FY2023). Key segments of operations as per the current order book include government railway sliding projects, private railway siding projects and construction of government building.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	755.1	751.6
PAT	56.4	43.7
OPBDIT/OI	10.0%	9.4%
PAT/OI	7.5%	5.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	21.8	17.3

Source: ICRA research, company

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Aug 04, 2023	Aug 10, 2022	Aug 06, 2021	Sep 03, 2020	Apr 03, 2020
1	Fund-based – Working capital facilities – Cash credit	Long term	109.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund based – Bank guarantee	Long term	-	-	-	-	-	-	[ICRA]A- (Stable)
3	Non-fund based – Bank guarantee	short term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
4	Non-fund based – Bank guarantee	Long term and short term	445.0	-	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-
5	Cash credit#	short term	(20.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
6	Unallocated	Long term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
7	Proposed fund-based limits	Long term	127.0	-	[ICRA]A (Stable)	-	-	-	-
8	Proposed non-fund based limits	Long term and short term	119.0	-	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-

#Interchangeable with BG limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Bank guarantee	Very Simple
Cash credit#	Simple
Proposed fund-based limits	Simple
Proposed non-fund based limits	Very Simple

#Interchangeable with BG limits

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: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based – Working capital facilities – Cash credit**	NA	NA	NA	109.00	[ICRA]A (Stable)
NA	**Non-fund based Bank guarantee**	NA	NA	NA	445.0	[ICRA]A (Stable)/ [ICRA]A1
NA	**Cash credit#**	NA	NA	NA	(20.00)	[ICRA]A1
NA	**Proposed fund-based limits**	NA	NA	NA	127.0	[ICRA]A (Stable)
NA	**Proposed non-fund based limits**	NA	NA	NA	119.0	[ICRA]A (Stable)/ [ICRA]A1

Source: Company; #Interchangeable with BG limits

Please click here to view details of lender-wise facilities rated by ICRA

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

ICRA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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