

August 06, 2024

Tracks & Towers Infratech Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based - Cash credit	109.00	266.00	[ICRA]A (Stable); reaffirmed
Long-term/Short-term: Non-fund based - Bank guarantee	445.0	519.16	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Short-term: Interchangeable Cash credit#	(20.00)	(20.00)	[ICRA]A1; reaffirmed
Long-term: Proposed fund-based limits	127.0	4.84	[ICRA]A (Stable); reaffirmed
Long-term/Short-term: Proposed non-fund based limits	119.0	10.00	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	800.00	800.00	

*Instrument details are provided in Annexure-I; #-Sublimit; Interchangeable with BG limits

Rationale

The ratings reaffirmation for Tracks & Towers Infratech Private Limited (TTIPL) favourably factors in its comfortable financial risk profile as reflected by low leverage with total outside liabilities to tangible net worth (TOL/TNW) of 0.3 times as on March 31, 2024, and interest cover of 22.4 times in FY2024, which is expected to sustain in the near term on the back of low debt levels. The ratings draw comfort from the reputed client profile including Rail Vikas Nigam Limited (RVNL), Indian Railway Construction International Limited (IRCON), Rail India Technical and Economic Service (RITES), National Highways Authority of India (NHAI) and the company's low working capital intensity with timely realisation of bills. The ratings also consider the strong operational track record in executing railway works. The revenues increased by 24% to Rs. 931.6 crore in FY2024 from Rs. 751.1 crore in FY2023, driven by healthy execution of order book. Although the order book position stood healthy at Rs. 2,469.6 crore as on March 31, 2024, the company is yet to receive the appointed date in the HAM project work (EPC value of Rs. 1,206.0 crore). Adjusted for the same, the order book position reduced to Rs. 1,263.2 crore as on March 31, 2024 (order book to OI of 1.35 times) and provides limited medium-term revenue visibility (2-3 years). Therefore, TTIPL's ability to secure new orders in a timely manner remains the key for sustaining revenue growth.

TTIPL has won a HAM project in a JV with RVNL with a bid project cost of Rs. 1,272.0 crore in June 2023, which entails an equity commitment of Rs. 121.0 crore for its share. ICRA has considered the receipt of another HAM project in its assessment resulting in a sizeable equity commitment during FY2025-FY2027. Given the different risk rewards in HAM projects (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. 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 concentrated order book in terms of clients, project and segments with the top 3 customers accounting for 89% of the order book as on March 31, 2024. Although the company has orders from railway, road and building segments, majority of the revenue was generated from the railway segment in FY2024. Besides, the top 5 projects constituted 84% of the order book as on March 31, 2024. The ratings are also constrained by TTIPL's limited experience in road project execution. However, its track record of completing the railway projects in a timely manner will mitigate the risk to an extent. 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 adequate on the back of its low working capital intensity.

The Stable outlook on the long-term rating reflects ICRA's opinion that TTIPL will maintain comfortable financial profile, supported by healthy order execution and timely receipt of payments from its customers.

Key rating drivers and their description

Credit strengths

Healthy order book position – TTIPL has a healthy order book of Rs. 2,469.6 crore as on March 31, 2024, which is 2.7 times of the OI in FY2024, providing medium-term revenue visibility. Although the order book position remains healthy, 49% of the order book is related to EPC work of HAM project for which the appointed date is yet to be received. Adjusting for the HAM project order, the company's order book position reduced to Rs. 1,263.2 crore providing near-term revenue visibility. Therefore, TTIPL's ability to secure new orders in a timely manner remains the key for sustaining the revenue growth.

Reputed clientele mitigates counterparty credit risk – TTIPL operates primarily in the railway, building and road segments. and has order book from RVNL, IRCON RITES and NHAI. The counterparty credit risk remains low, given the reputed client profile. The company's working capital intensity stood low at 9% in FY2024 and is expected to remain comfortable owing to timely receipt of payments from its key customers.

Comfortable financial profile – TTIPL's financial risk profile is comfortable with leverage (TOL/TNW) of 0.3 times as on March 31, 2024 and interest coverage of 22.4 times in FY2024. Although the company's debt levels is expected to increase in the medium term, the leverage and coverage metrics are likely to sustain at healthy levels in the medium term.

Credit challenges

Sizeable equity commitment and execution risks related to HAM projects – TTIPL has one HAM project in a JV with RVNL and had a total equity commitment of Rs. 121.0 crore. ICRA has considered the receipt of additional HAM project in its assessment resulting in a sizeable equity commitment during FY2025-FY2027. 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.

Moderate order book diversification – TTIPL's order book is moderately concentrated in terms of clients, project and segments. The top 3 customers accounted for 89% of the outstanding order book as on March 31, 2024. Although the company has presence in railway, road and building segments, more than 96% of the revenue was generated from the railway segment in FY2024. As on March 31, 2024, the road segment accounts for 48.8% of the order book, followed by railway siding works at 40.1%, building works at 7.1%. Besides, the top 5 projects constituted 84% of the pending order book as on March 31, 2024.

Risks associated with construction sector including sizeable non-fund based exposure – TTIPL is exposed to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationships with clients, provide comfort. It is exposed to sizeable contingent liabilities in the form of BGs (~Rs. 312.2 crore as on June 30, 2024), mainly towards performance guarantee, mobilisation advances and security deposits. Nonetheless, ICRA draws comfort from TTIPL's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

TTIPL's liquidity is expected to be adequate, with healthy cash flows from operations, supported by a low working capital cycle, free cash and bank balances of Rs. 44.4 crore and cushion available in the form of unutilised working capital facilities. The average utilisation of its fund-based limits was at less than 5% for the last fifteen months ending July 2024. The company has minimal repayment obligations of Rs. 6.3 crore, equity commitment of Rs. 60.0 crore and moderate capex plans of ~Rs. 40.0 crore in FY2025, which can be comfortably met by estimated cash flow from operations, along with lines of credit available.

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 and/or low order inflow and/ or deterioration in working capital intensity impacting its earnings. Further, higher-than-expected increase in investments 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 Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has done limited consolidation of HAM special purpose vehicles (SPV) factoring in the equity commitments and support towards meeting any cash flow mismatches

About the company

Tracks & Towers Infratech Private Limited (TTIPL) was incorporated in August 2007. It was converted from a partnership firm, which was established in 1983. TTIPL is a special class civil contractor, which primarily undertakes projects from railway segment and its scope of work includes laying of railway tracks, construction of roadbed, major and minor bridges, signalling and telecommunications. The company has also diversified into construction of buildings and road segment in the recent past.

Key financial indicators

	FY2023	FY2024*
Operating income	751.1	931.6
PAT	40.5	80.9
OPBDIT/OI	9.1%	9.0%
PAT/OI	5.4%	8.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	16.8	22.4

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				August 06, 2024	Aug 04, 2023	Aug 10, 2022	Aug 06, 2021
1	Fund-based – Working capital facilities – Cash credit	Long term	266.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-fund based – Bank guarantee	short term	-	-	-	[ICRA]A1	[ICRA]A1
3	Non-fund based – Bank guarantee	Long term and short term	519.16	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-
4	Interchangeable – Cash credit#	short term	(20.00)	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	Unallocated	Long term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)
6	Proposed fund-based limits	Long term	4.84	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
7	Proposed non-fund based limits	Long term and short term	10.00	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-

#Interchangeable with BG limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Working capital facilities - Cash credit	Simple
Long-term and short-term - Non-fund based - Bank guarantee	Very Simple
Short-term - Interchangeable cash credit#	Simple
Long-term - Proposed fund-based limits	Simple
Long term - short term- 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	266.00	[ICRA]A (Stable)
NA	Non-fund based - Bank guarantee	NA	NA	NA	519.16	[ICRA]A (Stable)/ [ICRA]A1
NA	Cash credit#	NA	NA	NA	(20.00)	[ICRA]A1
NA	Proposed fund-based limits	NA	NA	NA	4.84	[ICRA]A (Stable)
NA	Proposed non-fund based limits	NA	NA	NA	10.0	[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

Company Name	Ownership	Consolidation Approach
Chatra Expressways Private Limited	51.00%	Limited Consolidation

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Branches



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