

April 25, 2024

Ramkrishy Infrastructure Pvt. Ltd.: 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 – CC	32.00	42.50	[ICRA]BBB (Stable); reaffirmed and assigned for enhanced limits
Long-term – Fund-based – TL	7.14	11.60	[ICRA]BBB (Stable); reaffirmed and assigned for enhanced limits
Non-fund based	97.00	105.50	[ICRA]A3+ reaffirmed and assigned for enhanced limits
Total	136.14	159.60	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to take comfort from Ramkrishy Infrastructure Pvt. Ltd.'s (RIPL) established track record in executing building construction projects, its above-average financial profile, characterised by a moderate capital structure with TOL/TNW of 1.4 times as on March 31, 2023, and comfortable coverage indicators (interest coverage of 5.8 times for FY2023). The receivable cycle from its clients has remained stable, which along with the availability of funding in the form of interest-free mobilisation advances from some of the clients, helps in moderating the working capital intensity and ensures limited reliance on working capital debt.

The ratings, however, remain constrained by RIPL's modest scale of operations, high customer and project concentration risk as the top three customers and top five projects account for 83% and 54% of the outstanding order book as on January 31, 2024, respectively. RIPL is exposed to geographical concentration risk as all pending orders are in Karnataka. Further, the rating is constrained by the slowdown in new order inflow in 10M FY2024 leading to a decline in outstanding order book position to ~Rs. 545 crore, translating into OB/OI of 1.36 times, which limits the revenue visibility. The ratings factor in the moderate operating margins at 7.7% in FY2023 and exposure of its profit margins to adverse variation in the raw material, labour and other input costs, as the price escalation clauses cover only a part of price hikes. RIPL's ability to gain new orders to sustain revenue growth and judiciously manage its working capital cycle remains the key monitorables.

The Stable outlook reflects ICRA's opinion that RIPL will continue to benefit from its improved execution, the expected inflow of fresh orders, along with continued timely receipt of payments from its key customers.

Key rating drivers and their description

Credit strengths

Established track record of promoters in civil construction industry – RIPL's promoters have nearly two decades of experience in the civil construction industry and have executed projects in Karnataka and Telangana. The company has proven execution capability in building construction and road development projects. Over the years, it has executed several projects for various Government agencies.

Reputed clientele – RIPL has executed contracts for reputed government entities such as the Health and Family Welfare Department (H&FWD), Karnataka Residential Educational Institutions Society (KREIS) and Karnataka Housing Board (KHB). This is favourably reflected in its low counterparty credit risk. The receivable cycle from its clients has remained stable and coupled with the availability of funding in the form of mobilisation advances from some of the clients, helps in moderating the working capital intensity and ensures limited reliance on working capital debt.

Comfortable debt coverage indicators – RIPL’s capital structure remains comfortable with TOL/TNW of 1.4 times (March 2022: 1.7 times) as on March 31, 2023. The coverage indicators are comfortable, as reflected in interest coverage of 5.8 times (March 2022: 6.5 times) and DSCR of 4.1 times (March 2022: 4.2 times) for FY2023. With no major repayment obligations, ICRA expects the company’s debt coverage metrics to remain comfortable, with interest cover remaining above 5.5 times over the medium term.

Credit challenges

Modest scale of operation; slowdown in new order inflow limits revenue visibility – RIPL’s scale of operation remains modest with a gross turnover of ~Rs. 392 crore in FY2024 (provisional) (Rs. 366 crore in FY2023). The order inflow has been limited in the current fiscal, resulting in moderation in order book to Rs. 545 crore (as on January 31, 2024) compared to Rs. 711 crore as of March 2023. While the order book remains satisfactory at present, RIPL’s ability to secure new orders remains a key monitorable for sustained growth in the coming years. Further, the entity is expected to venture into the development of land parcels on its books, a non-core business, which could be a drag on the company’s operations.

High client and geographical concentration – The top three customers and top five projects accounted for 83% and 54% of the outstanding order book, respectively, as on January 31, 2024. Any delay in execution or payments can affect the company’s revenues and liquidity position. Additionally, Karnataka contributes to RIPL’s entire pending order book. It has no plans to geographically diversify in the immediate future. It remains exposed to project execution risk with 23% of the order book in the initial stages of execution (less than 15% executed).

Modest operating margins and intense competition in construction industry – RIPL’s operating margin, though improved to 7.7% in FY2023 from 6.6% in FY2022, remains modest compared to previous highs of around 8.5%-9%. Further, it remains exposed to fluctuations in the prices of its key inputs, as the price escalation clauses cover only a part of the increase in the prices. The company is exposed to intense competition in the tender-based contract awarding system, resulting in revenue volatility and pressure on margins.

Liquidity position: Adequate

RIPL’s liquidity is adequate, supported by positive cash flow from operations, cushion in working capital limits and free cash balances. The company has a moderate utilisation of fund-based working capital limits at 67% during April 2023 to March 2024, with free cash and bank balance of Rs. 18.0 crore as on March 31, 2024. It has a scheduled repayment obligation of Rs. 3.75 crore in FY2025, which can be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company’s revenue increases on a sustained basis, along with a material improvement in its profitability and liquidity position. Moreover, improvement in order book position providing healthy medium-term revenue visibility remains crucial for a rating upgrade.

Negative factors – Pressure on RIPL’s ratings may arise if there is a decline in revenues or profitability, or if an increase in working capital intensity adversely impacts its liquidity position. Further, inability to add new orders to the depleting order book position could be a credit negative. Specific credit metrics that could lead to a downgrade of RIPL’s ratings include TOL/TNW increasing beyond 1.8 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

Incorporated in 2008, RIPL is a Bengaluru-based construction contractor and a Class-I contractor with the Government departments. It undertakes building and road construction work for various government entities in Karnataka. Its clientele includes KREIS, KHB, KPWD and H&FWD, among others. RIPL's Managing Director, Mr. K. V. Krishna Reddy, has nearly 19 years of experience in the civil construction industry through a partnership firm, Krishna Constructions (established in 2004), which subsequently merged its operations with RIPL in 2012.

Key financial indicators

RIPL	FY2022	FY2023	10M FY2024*
Operating income (Rs. crore)	303.2	315.2	233.2
PAT (Rs. crore)	13.2	14.3	13.8
OPBDIT/OI (%)	6.6%	7.7%	7.4%
PAT/OI (%)	4.4%	4.5%	5.9%
Total outside liabilities/Tangible net worth (times)	1.7	1.4	1.2
Total debt/OPBDIT (times)	0.5	1.7	1.8
Interest coverage (times)	6.5	5.8	7.8

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
				Apr 25, 2024	Feb 29, 2024	Dec 29, 2022	Dec 16, 2022	Sep 30, 2021	
1	Cash credit	Long term	42.50	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term loan	Long term	11.60	6.98	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

3	Bank guarantee	Short term	105.50	72.58	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – Term loan	Simple
Non-fund based – Bank guarantee	Very simple

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	Cash credit	NA	NA	NA	42.50	[ICRA]BBB (Stable)
NA	Term loan	FY2020-FY2024	NA	FY2029	11.60	[ICRA]BBB(Stable)
NA	Bank guarantee	NA	NA	NA	105.50	[ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Chintan Lakhani

+91 22 6169 3345

chintan.lakhani@icraindia.com

Ritik Sundarka

+91 80 4332 6414

ritik.sundarka@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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