

December 18, 2024

RP Projects Private Limited: [ICRA]BB- (Stable)/ [ICRA]A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term - Proposed – Non-fund based facilities	50.00	[ICRA]BB- (Stable)/ [ICRA]A4; assigned
Total	50.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings for RP Projects Pvt Ltd (RPPPL) factors in the experience of the promoters in the construction of roads and its recognition as a special class contractor by the Government of Andhra Pradesh, and Class-I contractor by the Government of Telangana enabling it to secure projects. The ratings consider its reputed client base comprising mainly Government agencies such as the National Highway Authority of India (NHAI), Ministry of Road Transport and Highways of India (MoRTH), Hyderabad Metropolitan Development Authority (HMDA), mitigating the counterparty credit risk to an extent. The ratings note the adequate order book position of Rs. 55.15 crore as on October 31, 2024 providing revenue visibility.

The ratings are, however, constrained by its modest scale of operations with revenues of Rs. 20.1 crore in FY2024, which restricts operational and financial flexibility. Further, the ratings are constrained by its stretched liquidity position as evident from high utilisation of its working capital limits and limited sanction of non-fund based limits, which constrains fresh order addition. The order book is exposed to execution risk as ~77% of the order book as on October 31, 2024 in the nascent stages of execution (with work yet to commence). The ratings are also constrained by the inherent exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and security deposits. Nonetheless, ICRA draws comfort from RPPPL's execution track record and the absence of invocation of guarantees in the past.

The Stable outlook reflects ICRA's opinion that the company will be able to scale up its operations on the back of healthy order book position, along with timely receipt of payments.

Key rating drivers and their description

Credit strengths

Adequate order book provides near-term revenue visibility – RPPPL has an order book of Rs. 55.15 crore as on October 31, 2024, which translates to 2.7 times of the FY2024 revenue, providing medium-term revenue visibility. The company's ability to secure new orders and improve execution remains a key monitorable in the near term. The client profile is reputed comprising mainly Government agencies such as the NHAI, MoRTH, HMDA, among others, reducing the counterparty credit risk to an extent.

Experienced promoter in execution of road contracts – RPPPL's promoter has more than two decades of experience in executing road and building construction works in Andhra Pradesh and Telangana. Further, the company is recognised as a special class contractor by Andhra Pradesh Government and Class-I contractor by the Telangana Government, which enables it to participate in various projects of the state government departments.

Credit challenges

Modest scale of operations and high working capital intensity – RPPPL’s scale of operations remains modest with revenues of Rs. 20.1 crore in FY2024. Although the revenues are expected to increase in the medium term, the scale of operations is likely to remain modest constraining its operational and financial flexibility. Its working capital intensity is high at around ~30% in FY2024 mainly on account of higher inventory days and sizeable sub-contractor advances. The average working capital limit utilisation remained high at 89% for the past six months and the reduction in working capital cycle remains crucial for improvement in its liquidity position.

Order book exposed to high execution and concentration risks – The company faces high project and client concentration risks with the top client and project contributing to 75% of the order book. It is exposed to high execution risk as billing is yet to commence for ~77% of the order book. Given this, timely ramp-up of execution of the orders will be critical in improving the revenues going forward.

High competitive intensity in the construction segment – The competition is intense in the civil construction business, given the low complexity of the work involved. The rating is constrained by the inherent exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and security deposits. Nonetheless, ICRA draws comfort from the promoter’s execution track record and the absence of invocation of guarantees in the past.

Liquidity position: Stretched

RPPPL’s liquidity position is stretched owing to limited cushion in fund-based limits and free cash balances. The average utilisation of working capital limits remained high at 88% during the last 12 months ending September 2024. However, low debt repayments of Rs. 0.75 crore and minimal capex plans in FY2025 is expected to support its liquidity position in the near term.

Rating sensitivities

Positive factors – The ratings could be upgraded if the entity demonstrates significant improvement in its order book, scale of operations, earnings and liquidity position on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a significant decline in earnings or any significant debt-funded capex or increase in working capital cycle weakening the debt coverage indicators or liquidity position on a sustained basis.

Analytical approach

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

About the company

RP Projects Pvt Ltd (RPPPL) is a closely-held company established in 2012. It mainly undertakes construction of roads, road maintenance and allied works, buildings, fencing and pathways works in Andhra Pradesh and Telangana. RPPPL is promoted by Mrs. Rajeswari Palla (spouse of Mr. Prasanna Kumar Palla).

Key financial indicators (audited)

	FY2023	FY2024
Operating income	23.0	20.1
PAT	1.2	0.4
OPBDIT/OI	8.6%	7.6%
PAT/OI	5.1%	1.9%
Total outside liabilities/Tangible net worth (times)	6.7	2.1
Total debt/OPBDIT (times)	1.1	2.0
Interest coverage (times)	1.2	4.5

Source: Company, ICRA Research; 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Dec 18, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Proposed – Non-fund based facilities	Long Term/ Short Term	50.00	[ICRA]BB-(Stable)/ [ICRA]A4	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term - Proposed – Non-fund based facilities	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	Proposed – Non-fund based facilities	NA	NA	NA	50.00	[ICRA]BB- (Stable)/ [ICRA]A4

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

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