

April 30, 2024

RMS Construction Private Limited: Rating reaffirmed.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Overdraft	6.0	6.0	[ICRA]BB(Stable); reaffirmed
Long-term/short-term – Non-fund based	69.0	69.0	[ICRA]BB(Stable)/[ICRA]A4; reaffirmed
Total	75.0	75.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation favourably factors in the extensive experience of RMS Construction Private Limited's (RCPL) promoters, its long track record in the civil construction industry, healthy clientele with low counterparty risk and healthy order book resulting in medium-term revenue visibility. ICRA notes the recovery in the company's performance post Covid-induced years as reflected in the significant growth in its scale of operations (Rs. 212 crore in FY2024 compared to Rs. 138 crore in FY2023), along with an improvement in the profitability margins. The improvement in the performance is attributed to acceleration in project execution, which was slow in the past and increase in the company's order book. RCPL executes projects majorly for the Defence Research and Development Organisation (DRDO), a Government of India (GoI) entity, apart from other GoI-owned entities, limiting counterparty risk for the company. RCPL continues to maintain a healthy order book with outstanding orders of Rs. 539.8 crore as of February 2024, which provides medium-term revenue visibility, albeit with high execution risk.

The ratings are, however, constrained by the company's stretched liquidity evident from high utilisation of its working capital limits as well as non-fund based limits, without any significant buffer for any urgent fund requirements. Further, the company is exposed to high project and client concentration risks as majority of the projects are of similar nature and from a single client, the DRDO. Additionally, the company is exposed to project execution risks as any unanticipated delay beyond permitted schedule, could result in penalties and cost overruns, especially in the absence of any price-escalation clauses. The ratings also factor in the absence of a price-escalation clause in its contracts and the intense competition from other unorganised players, which puts pressure on RCPL's profitability.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company is likely to sustain its operating metrics even as its revenue growth and profitability could be volatile. Further, the outlook underlines ICRA's expectations that the company's working capital and short-term fund requirements, would be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established presence of promoters in construction business – RCPL's promoters have been in the construction business for over a decade, which has aided the company in securing new and repeat orders, especially from the DRDO, its major client. Additionally, the promoters have supported the entity when required, to fund its working capital.

Healthy clientele resulting in low counterparty risk – The counterparties for the tender-based projects executed by RCPL are reputed Government organisations, with the major clients being DRDO and Department of Atomic Energy. However, the

company has recently undertaken a project for reputed technology company, Elbit Systems Limited. Hence, the counterparty credit risk is low.

Healthy order book with medium-term revenue visibility – RCPL had an outstanding order book of Rs. 539.8 crore as of February 2024, with OB/OI at 3.9 times of trailing FY2023 revenues. This provides healthy medium-term revenue visibility for the company.

Credit challenges

Exposure to execution risk and high project and client concentration – RCPL's order book position of Rs. 538.8 crore as of February 2024 included 72% projects at nascent stages of execution. This translates into execution risk for the company with a requirement to ramp-up the pace and complete the projects in hand within the scheduled timeline. The company has executed work orders mainly for the DRDO facilities at various locations across the country. The company had succeeded in bagging orders from Nuclear Fuel Complex (NFC, a unit of the Department of Atomic Energy, GoI), Global Centre for Nuclear Energy Partnership (GCNEP) and Elbit Systems Limited (an Israel-based defense contractor), adding some diversification to its customer base. However, the company's clientele continues to be concentrated with the top-three orders constituting 48% of the outstanding order book as on February 08, 2024, and the DRDO being its major customer. Given the client concentration, the risk of non-delivery in any project or weakening of business relationships with counterparties, (DRDO accounts for 71% of outstanding order book as on February 08, 2024), can have a negative bearing on securing future orders. Also, any change in the policies of the Ministry of Defense (MoD), GoI may impact RCPL's operations.

Vulnerability of profitability to adverse price fluctuations and intense competition – RCPL faces intense competition from several contractors in the industry. Entities that meet the technical qualification criteria qualify for financial bidding. Subsequently, the contract is awarded to the lowest (L1) bidder. This limits its bargaining power and pricing flexibility. RMS margins are susceptible to the adverse fluctuations in input prices as majority of its contracts are short term in nature and, thus, have no provision for a pass-through clause.

Stretched liquidity position – The company's liquidity position has been stretched, reflected in high utilisation of its fund-based bank limits in the recent past with average of 82% in last 12 months. While there has been instance of over utilisation in fund-based limits towards the last day of the month, the same is corrected in the subsequent days. RCPL's working capital requirement is likely to increase with expected expansion in scale of operations, which may pressurise its liquidity.

Liquidity position: Stretched

RCPL's liquidity remains stretched due to low cash accruals and limited cushion in the fund-based working capital limits. The utilisation of fund-based OD limits remained high at an average of 82% during March 2023 to February 2024. Further, while the utilisation of the non-fund based limits has been at moderate levels, time mismatch between any large maturity of its bank guarantee and client receivables could impact the company's liquidity. Timely support from promoters through capital infusion/unsecured loans and/or sanction of enhanced working capital lines will be crucial to mitigate any cash flow mismatch.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company registers significant growth in its revenues and profitability, leading to an improvement in debt coverage indicators and liquidity, on a sustained basis.

Negative factors – Delay in execution of order book affecting RCPL's scale and profitability, leading to a deterioration of credit metrics along with continued pressure on liquidity could result in a negative rating action. Further, stretch in the working capital cycle could exert pressure on the ratings.

Analytical approach

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

About the company

RMS Construction Pvt. Ltd. (RCPL) is a Delhi-based ISO 9001:2015 certified construction company. It provides services in various segments such as residential buildings, institutional projects, construction of different technical buildings and basic infrastructure for the Government of India (GoI) agencies such as Defence Research and Development Organisation (DRDO) and Department of Atomic Energy (DAE). It undertakes civil and allied works such as road works, water supply, sewage treatment plants (STP), external drainage services, fire-fighting works, etc. The promoters have been involved in the same line of business since 1982. Being an ISO-certified company, the firm has a team of dedicated professionals and has carried out works across several cities in India.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income (Rs. crore)	73.9	138.6	212.0
PAT (Rs. crore)	0.2	4.3	5.0
OPBDIT/OI (%)	1.2%	6.1%	3.6%
PAT/OI (%)	0.3%	3.1%	2.4%
Total outside liabilities/Tangible net worth (times)	1.5	2.0	0.9
Total debt/OPBDIT (times)	14.0	1.2	1.4
Interest coverage (times)	0.7	3.1	4.3

Source: Company Data; ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional data; *Provisional

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 March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				April 30, 2024	-	Mar 28, 2023	Feb 11, 2022
1	Fund Based – Overdraft	6.0	-	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Non Fund Based Facilities	69.0	-	[ICRA]BB (Stable)/ [ICRA]A4	-	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term – Non-fund Based Facilities	Very Simple
Long-term – Fund-based - Overdraft	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	Fund-based - Overdraft	NA	NA	NA	6.0	[ICRA]BB (Stable)
NA	Non-fund Based Facilities	NA	NA	NA	69.0	[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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