

October 11, 2017

## RKC Infrabuilt (Savli-Halol) Road Project Private Limited

### Summary of rated instruments

Instrument*	Amount Rated (Rs. crore)	Rating Action
Fund based -Term Loan	36.60	[ICRA]D; Revised from [ICRA]BB+(Stable)
<b>Total</b>	<b>36.60</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has revised the long-term rating for the Rs. 36.60 crore bank facilities of RKC Infrabuilt (Savli-Halol) Road Project Private Limited (RKC-SH) to [ICRA]D (pronounced ICRA D) from [ICRA]BB+ (Stable) (pronounced ICRA double B plus).

### Rationale

The rating revision takes into account delays in servicing the debt obligations by the company owing to the cashflow mismatches arising out of delayed annuity receipts. The unfavourable revision in repayment schedule leading to reduction in the time gap (6-7 days presently compared to 97 days earlier) between the annuity receipt date and its aligned term loan repayment date coupled with non-maintenance of the specified DSRA/escrow requirement led to delays in debt servicing. Further, the rating also takes into account, company's exposure to risks related to O&M and major maintenance since receipt of the entire annuity quantum depends on ensuring 100% lane availability and vulnerability of profitability to the higher-than-estimated increase in the operating and maintenance expenses.

The rating, takes note of the vast experience of the promoter in road construction projects in Gujarat and the annuity based nature of the project with Road & Building Department, Government of Gujarat which results in predictable revenues irrespective of the traffic on the route.

### Key rating drivers

#### Credit Strength

- **Longstanding experience of promoters in the road construction segment:** The promoters of RKC-SH have been involved in road construction and quarry crushing business for more than two decades through RKC-SH's holding companies -S I Quarry Works Pvt Ltd (SIQ) and RKC Infrabuilt Private Limited (RKC).
- **Annuity based nature of the project:** Irrespective of the actual traffic movement on the road, the RKC-SH is expected to receive a fixed annuity payment of Rs. 4.14 crore from the Road & Building Department, Government of Gujarat semi-annually up to February 2026. There is neither a risk of reduced receipt in case of low traffic flow on the route nor an advantage in the event of high traffic flow.

#### Credit Concerns

- **Delays in debt servicing obligations:** The repayment due dates were revised resulting in reduced time gap (~7 days) between the annuity receipt date and its aligned term loan repayment date compared to from earlier gap of 97 days. The reduction in time gap, followed by subsequent delays in annuity receipts beyond 7 days coupled with non-maintenance of DSRA/Escrow mechanism led to cashflows mismatches leading to delays in debt servicing obligations to bank by the company.

- **Exposure to receipt of full annuity depending upon the full lane availability made by the company:** RKC-SH will have to maintain adequate lane availability as continual receipt of annuities is contingent upon the company ensuring 100% lane-availability. Thus, the ability of RKC-SH to maintain the specified driving quality of the carriageway; safety standards and adherence to maintenance schedule would be important to protect the annuity, which is the main stream for debt servicing.
- **Vulnerability of profit to higher-than-estimated operating and maintenance expenses:** The company's profitability remains vulnerable to risks related to higher than estimated operation and maintenance expense. Also any unanticipated major maintenance expense may adversely affect the profitability.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Ratings: A Note on Methodology](#)

[Rating Methodology for Construction Entities](#)

**About the company:**

Incorporated in 2011 as a wholly-owned subsidiary of S I Quarry Works Private Limited and RKC Infrabuilt Private Limited, RKC Infrabuilt (Savli-Halol) Road Project Private Limited (RKC-SH) is a special purpose vehicle (SPV) which had constructed, improved and widened highway along the stretch from Savli to Halol. The project entailed construction on the existing two-lane State Highway 150 covering a distance of 24.20 km in the state of Gujarat on Design, Built, Finance, Operate and Transfer (DBFOT) Basis and to thereafter maintain it for a period of 12 years.

The entire project was executed before the projected timeline at a total cost of Rs. 42.62 crore. The highway is made available for public use from March 11, 2014.

**Key financial indicators**

Particulars	FY2016	FY2017
	Audited	Audited
Operating Income (Rs. crore)	10.38	8.32
PAT (Rs. crore)	0.21	0.04
OPBDIT/ OI (%)	78.39%	89.27%
RoCE (%)	17.10%	16.51%
Total Debt/ TNW (times)	17.32	16.00
Total Debt/ OPBDIT (times)	2.79	2.91
Interest Coverage (times)	1.88	1.94
NWC/ OI (%)	-109%	-106%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:  
Table:**

S. No.	Instrument				Current Rating (FY2018)	Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					<b>October 2017</b>	<b>September 2016</b>	-	<b>March 2015</b>
1	Term Loan	Long Term	36.60	36.60	[ICRA]D	[ICRA]BB+ (Stable)	-	[ICRA]BBB (Stable)

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as “Simple”, “Complex” and “Highly Complex”. The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. Crore)</b>	<b>Current Rating and Outlook</b>
Term Loan	-	-	FY2024	36.60	[ICRA]D

Source: Bank's sanction letter,

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### About ICRA Limited:

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