

Ram Kripal Singh Construction Pvt. Ltd.

October 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	40.00	65.00**	[ICRA]A-(Stable) reaffirmed
Non-Fund based – Bank Guarantee	460.00	585.00#	[ICRA]A-(Stable) reaffirmed
Non-Fund based – Letter of Credit	(25.00)	(50.00) #	[ICRA]A2+ reaffirmed
Total	500.00	650.00	

*Instrument details are provided in Annexure-1

** Interchangeable between fund-based and non-fund based limits to the extent of Rs. 32.50 crore

#100% interchangeable with non-fund based bank guarantee limit

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 65.00-crore¹ (enhanced from Rs.40.00 crore) fund-based and Rs. 585.00-crore (enhanced from Rs.460.00 crore) non-fund based bank limits of Ram Kripal Singh Construction Private Limited (RKSCPL) at [ICRA]A- (pronounced ICRA A minus)². The outlook on the long-term rating is Stable. The fund-based limits are interchangeable with the long-term non-fund based limits to the extent of Rs. 32.50 crore. ICRA has also reaffirmed the short-term rating assigned to the Rs. 50.00-crore (enhanced from Rs. 25.00 crore) non-fund based limits of RKSCPL at [ICRA]A2+ (pronounced ICRA A two plus). The Rs. 50.00-crore non-fund based bank limit is 100% interchangeable with the Rs. 585.00-crore long term non-fund based bank limit so that the total utilisation does not exceed Rs. 585.00 crore.

Rationale

The ratings reaffirmation favourably factors in the improvement in the financial performance of RKSCPL in FY2018, which witnessed a ~22% growth in operating income (OI) to Rs. 1,051 crore in FY2018. The operating margins have also improved to ~10.5% in FY2018 from ~7.3% in FY2017. Ratings are supported by a low gearing at ~0.4 times and comfortable debt coverage indicators with Interest cover at ~5.2 times and TD/OBITDA at ~0.7 times as of FY2018. The ratings also favourably factor in the company's established track record in the infrastructure and construction business and a healthy outstanding order book position of Rs. 3,577 crore, which is over 3.4 times of the OI of FY2018, giving it a revenue visibility in the near to medium term. Moreover, the order book has also seen some diversification with addition of orders from the irrigation, mining and power projects. In addition, the ratings continue to factor in the experience of the promoters, especially in Jharkhand and Bihar.

The ratings, however, are constrained by the tender-based contract awarding system, which leaves little scope for expansion of margins. Although the gearing is comfortable, ICRA notes that the overall indebtedness as measured by

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

total outside liability to tangible network, remains high. The company is also exposed to fluctuations in the raw material prices, although the in-built price escalation clauses provides some comfort. The ratings are further constrained by its exposure to geographical concentration risk with most of the projects concentrated in the states of Jharkhand and Bihar. However, ICRA notes that the company has received some orders in new geographies and has plans to expand its presence in the North Eastern states. While order book position remains healthy, any delay in receipt of clearances from the awarding authorities or in project execution by the company, could affect the future revenue growth and liquidity position of the company. Thus, RKSCPL's ability to execute projects in a timely manner while maintaining the profitability and liquidity profile will be the key rating sensitivities, going forward.

Outlook: Stable

ICRA believes that RKSCPL will continue to benefit from the healthy order book position and extensive experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or a stretch in the working capital cycle, weakens liquidity. Any slowdown in order execution would also have an adverse impact on the credit profile of the company.

Key rating drivers

Credit strengths

Significant improvement in financial performance during FY2018: The company's revenues have grown by ~22% from Rs. 864.42 crore in FY2017 to Rs. 1,051.03 crore in FY2018, due to faster execution of projects. RKSCPL's OI has been growing at a CAGR of ~22.94% over the period FY2013 to FY2018. The OBITDA margin, after remaining range bound over the last few years, improved to ~10.5% in FY2018.

Healthy and diversified order book position: RKSCPL has an outstanding orderbook of ~Rs. 3,577 crore as on July 31, 2018, which indicates a trailing book to bill ratio of 3.4 times of the FY2018 operating income. These orders are scheduled to be executed over the next two to three years, thereby providing revenue visibility in the near to medium term. Moreover, the order book has also seen some diversification with addition of orders from irrigation, mining and power projects.

Low gearing with comfortable debt coverage indicators: The company has a comfortable financial profile with favourable gearing at ~0.4 times of of FY2018. Further, it is also supported by comfortable coverage indicators with Interest cover of ~5.2 times and Total Debt/OBITDA of ~0.7 times as of FY2018. Although the gearing is comfortable, ICRA notes that overall indebtedness remains high as measured by the total outside liabilities to tangible network.

Established track record of the company and experience of promoters in the infrastructure and construction business: The company has developed an expertise in the road construction sector with an established track record of successful project execution in a timely manner. The promoters are closely involved in the day-to-day business activities and have an extensive experience in the same. The company is also investing in capital infrastructure to expedite the project execution, improve technical prowess and participate in high-value contracts.

Credit challenges

Very competitive business environment and tender-based contract-awarding system keep margins under check: Although the operating margin has seen some improvement, ICRA notes that the tender-based system of awarding contracts, coupled with intensely competitive business environment in the construction segment, characterised by the presence of a large number of players, tend to keep margins under check. Further, the margin is also exposed to volatility in raw material prices. ICRA, however, notes that the built-in price variation clause in most of the contracts mitigates the said risk to an extent.

Exposure to geographical concentration risks: A significant portion of the orders to be executed by the company are in Jharkhand and Bihar, thus, exposing it to geographical concentration risks. However, the said risk is mitigated given the increased thrust on infrastructure development in these areas and RKSCPL's stronghold in these regions. ICRA also notes that the company has been diversifying to reduce the regional concentration risks.

Delays in execution of contracts, if any, could adversely impact revenue growth and liquidity position, going forward - The current orders have an average tenure of two to three years. However, any delay in receipt of clearances from the awarding authorities or in project execution by the company could affect the future revenue growth and liquidity position of the company.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[ICRA Rating Methodology: Construction Companies](#)

About the company:

Incorporated in 1973 as a proprietorship entity (M/s Ram Kripal Singh), RKSCPL is primarily involved in the business of civil construction. In October 2003, it was converted into a private limited company. RKSCPL's core area of operations include road work, construction of buildings, civil structures, national/ international stadiums, land development and piling work for bridges, for various government agencies and public sector units like PWDs, State Irrigation Departments, State Building Construction Departments, IOCL, HPCL, NTPC and Engineering Projects India Ltd., among others. Moreover, the company has developed expertise in road works with a track record of successful project completion for both State and National Highways. The company's area of operations is spread across northern and eastern states including Bihar, Jharkhand, Haryana, Uttaranchal, Uttar Pradesh, Madhya Pradesh and Orissa.

In FY2018, the company reported a net profit of Rs. 48.9 crore on an operating income of Rs. 1,051.03 crore compared to a net profit of Rs. 28.6 crore on an operating income of Rs. 864.4 crore in the previous year.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	864.4	1051.03
PAT (Rs. crore)	28.6	48.9
OPBDIT/OI (%)	7.3%	10.5%
RoCE (%)	37.8%	47.0%
Total Debt/TNW (times)	0.5	0.4
Total Debt/OPBDIT (times)	1.0	0.7
Interest coverage (times)	4.2	5.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
								Oct 2015	June 2015
Instrument					Oct 2018	Sep 2017	Aug 2016	Oct 2015	June 2015
1	Fund based – Cash Credit	Long term	65.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Non- Fund based – Bank Guarantee	Long term	585.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-Fund based – Letter of credit*	Short term	(50.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2

*100% interchangeability with non-fund based bank guarantee limits

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund Based – Cash Credit	-	-	-	65.00**	[ICRA]A(Stable)/A2+
	Non fund based – Bank Guarantee	-	-	-	585.00	[ICRA]A(Stable)/A2+
	Non-fund based – Letter of credit	-	-	-	(50.00) *	[ICRA]A(Stable)/A2+

*100% interchangeability with non-fund based bank guarantee limits

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Source: Ram Kripal Singh Construction Pvt. Ltd.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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