

R. K. Chavan Infrastructure Pvt. Ltd

March 06, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	12.50	14.50	[ICRA]BB- (Stable); assigned/ outstanding
Non-Fund based limits	-	8.68	[ICRA]BB- (Stable); assigned
Total	12.50	23.18	

*Instrument details are provided in Annexure-1

Rationale

The assignment of rating to R. K. Chavan Infrastructure Pvt. Ltd (RKC) takes into consideration the extensive experience of the promoters spanning over two decades as well as strong revenue visibility supported by its outstanding orderbook. As on November 30, 2018 RKC's orderbook stood at over Rs. 450 crore (5.7 times the revenue in FY2018) and comprised of sub-contracts for road improvement and rehabilitation projects from private sector EPC contractors. ICRA also notes positively that the company's margin profile is better than that of its peers owing to strong cost controls as well as large inhouse equipment base.

The rating assigned, however, is constrained by moderate capital structure as well as weak credit profile of its customers. As per the provisional financials, as on October 31, 2018 the TOL/TNW was 2.9 times as compared to 8.4 times as on March 31, 2018 as the promoters infused Rs. 5.0 crore equity during YTD FY2019. However, ICRA notes that majority of outstanding orders is in nascent stages which significantly increases the execution risk for the company. Additionally, the rating is constrained by high counterparty credit risk owing to RKC's weak client profile with nearly 90% of the outstanding orders from clients with weak credit profile. Even though, presence of escrow arrangements with these customers partly mitigates the risk, enforceability of these arrangements such that there are no delays in receipts by RKC's remains a risk. ICRA also notes that currently RKC has limited non-fund based exposure as it a sub-contractor, however, given the management's plans to enter into direct bidding for government projects may lead to increased non-fund exposure in the form of bank guarantees going forward. The rating is further constrained by high competitive intensity for the company; however, the company's competitive positioning is supported by its ability to gain large size projects in recent years.

Outlook: Stable

The Stable outlook on the rating reflects ICRA's belief that the company would continue to maintain a healthy execution track record while gaining new orders from existing as well as new customers. The outlook may be revised to Positive if the company's capital structure is significantly improved through equity infusion or improved working capital cycle, or if the counter party profile improves through further growth and diversification in the order book. The outlook may be revised to Negative if there is weakening in capital structure due to any large debt funded capex or if there are any delays in receipt from its customers which may significantly increase working capital requirements.

Key rating drivers

Credit strengths

Extensive experience of management team in civil construction sector - RKC is engaged in the business of civil construction (primarily roads) through contract from private players. The management team of RKC has more than two decades of experience in civil construction in and around Pune; at present, the company has projects under execution across Maharashtra, Karnataka, and Chhattisgarh. The management team's long track record is reflected in longstanding relationship with its customers as well as its ability to gain business from new customers.

Healthy revenue visibility over the medium term - As on November 30, 2018 the company had an outstanding order-book position of Rs. 453.8 crore to be executed over next 18 months. The company has also gained eligibility to bid for government projects directly which further supports the revenue visibility.

Healthy margin profile - During FY2015-FY2016 the company had a small revenue base and still reported operating margin (OPM) of ~12%. With the scale-up in operations from FY2017 onwards, the company benefitted from economies of scale and reported OPM at upwards of 15%. ICRA notes that despite being a sub-contractor the company has reported healthy profit margins owing to strong cost controls as well as large inhouse equipment.

Credit challenges

High competitive intensity - Intense competition in road and building construction segment given moderate complexity of the work involved. However, the competitive risk is partly mitigated by RKC's demonstrated track-record of gaining large size projects over the recent past.

High execution risk - Out of the order-book of Rs. 453.8 crore as on November 30, 2018 nearly 70% of the orders execution have started execution in recent months, which exposes the company to high execution risk.

Moderate capital structure - Till FY2018, RKC had a highly leveraged capital structure with TOL/ TNW was at 8.4 times as on March 31, 2018 because of low net worth and high dependence on bank debt as well as creditors. However, during 7M FY2019 the promoters have infused Rs. 5 crore equity which together with healthy scale-up in operating profit during the period led to improvement in the capital structure with TOL/TNW of 2.9 times as on October 31, 2018 as per provisional financials. However, ICRA notes that majority of clients have a weak credit profile and any delay in receipts by RKC may lead to stretched capital structure.

Weak credit profile of major clients - RKC currently caters only to private players who in turn have business from government authorities. Out of the current orderbook, RKC has major orders from Madhucon Projects Ltd (rated [ICRA]D) and Shriram EPC Limited which have relatively weak credit profile. Even though, presence of escrow arrangements with these customers partly mitigates the risk, enforceability of these arrangements such that there are no delays in receipts by RKC's remains a risk.

Liquidity Position:

RKC is currently in growth phase with large order-book under execution which has led to increased working capital requirements. During 7M FY2019, the liquidity was supported by equity infusion of Rs. 5 crore by the promoters but given the large execution over the next 12 months exposes the company to liquidity pressure as the sanctioned working capital limits from bank are fully utilised. Hence, going forward liquidity position of the company would largely remain dependent on its ability to manage its working capital cycle.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company:

RKC is an engineering and infrastructure enterprise, with operations in Maharashtra, Karnataka, and Chhattisgarh. Mr. Rajkumar Chavan undertook construction projects under a proprietorship firm, and in 2011 RKC was incorporated. At present, the company is engaged in the business of civil construction (primarily roads) as a sub-contractor for private players in the EPC segment.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	36.3	79.2
PAT (Rs. crore)	1.8	3.5
OPBDIT/OI (%)	19.4%	16.0%
RoCE (%)	16.7%	24.0%
Total Debt/TNW (times)	5.1	4.3
Total Debt/OPBDIT (times)	3.7	2.9
Interest Coverage (times)	2.5	2.9

Status of non-cooperation with previous CRA:

The company has an outstanding rating of CARE B+(Issuer Not Cooperating)/ CARE A4 (Issuer Not Cooperating) for Rs. 15.0 crore bank lines since March 09, 2018.

Any other information: None

Rating history for last three years:

Current Rating (FY2019)						Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Mar 2019	Date & Rating Feb 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Fund Based Limits	Long Term	14.50	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-	-
2 Non-Fund Based Limits	Long Term	8.68	-	[ICRA]BB-(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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-Based	-	-	-	14.50	[ICRA]BB- (Stable)
NA	Non-Fund Based	-	-	-	8.68	[ICRA]BB- (Stable)

Source: RKC

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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