

February 27, 2020

## R.S. Infraprojects Pvt. Ltd.: Ratings reaffirmed, rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	6.25	0.0	[ICRA]A- (Stable); Reaffirmed
Fund-based- Working Capital Facilities	70.0	80.0	[ICRA]A- (Stable); Reaffirmed
Non-fund based-Working Capital Facilities	220.0	365.0	[ICRA]A- (Stable); Reaffirmed
Non-fund based-Working Capital Facilities	45.0	65.0	[ICRA]A2+; Reaffirmed
Unallocated	3.75	0.0	-
<b>Total</b>	<b>345.0</b>	<b>510.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings factors in the healthy operational risk profile, characterised by strong track record of timely project completion, growing scale of operations as well as strong order book build-up. The order book stood at ~Rs. 1,379 crore as on October 01, 2019, against Rs. 1,208 crores as on August 30, 2018, leading to order book/Operating income ratio of 2.0 times, which provides visibility of revenues over medium term. The ratings also derive comfort from the efficient working capital management- as indicated by the working capital intensity of operations of 11% as on March 31, 2019, given timely collection of receivables (73 days in FY2019) and comfortable terms with suppliers. This has resulted in low dependence on working capital limits- working capital limits is 55% utilized in the last 12 months ending December, 2019. The ratings also factor in healthy financial risk profile, with gearing of 0.4x as on March 31, 2019, interest cover of 4.1x, DSCR of 2.7x and TD/OPBIDTA of 0.9x as on March 31, 2019. Additionally, the limit enhancements in the last one year has led to healthy cushion in the non-fund-based limits for further bidding and expansion. The rating continues to take comfort from the long and established track record of RSPL in the fabrication and erection of telecom towers and power transmission towers, client profile comprising public sector entities, which results in low counterparty risks. This apart, the company's strategic technical partnerships with key global players in the tower manufacturing provide it a competitive edge.

However, ICRA notes that the company is exposed to execution risks, as 54% of RSPL's current order book is at a nascent stage of execution, with some projects being delayed owing to challenges pertaining to right-of-way (ROW). Since most such approvals are to be obtained by the client, requisite extensions in timeline have been granted without any adverse action taken against RSPL. Nonetheless, slowdown in the execution due to delay in getting ROW may adversely impact revenue build-up. This apart, ICRA also takes note of the exposure to client concentration risks, with about 48% of the ongoing order book as on October 01, 2019 being generated from two clients. The rating is also constrained by decline in the operating margins in FY2019 to 9.9% from 12.7% in previous year primarily on account of the low margins contracts executed in FY2019, this coupled with higher interest expense in FY2019 owing to increased bank charges led to lower net profit margins despite healthy increase in the operating income. The ratings also take into account the company's exposure

to sizeable contingent liabilities in the form of Bank Guarantees (BG), largely for contractual performance (BG outstanding stood at Rs. 319 crore as of December 31, 2019). Nonetheless, ICRA takes comfort of the company's healthy execution track record and no crystallization of guarantees in the past. Further, RSIPL faces stiff competition in the telecom tower as well as the power transmission segment, which limits its pricing flexibility and constrains profitability to an extent.

## Key rating drivers and their description

### Credit strengths

**Established track record of operations with key clients; strategic technical partnerships with global players** – The promoters have more than three decades of experience in the fabrication and erection of telecom towers and transmission line towers. The client base comprised of Government entities like Bihar Grid Company Ltd. (BGCL), Haryana Vidyut Prasaran Nigam Ltd. (HVPNL), U.P. Power Transmission Corp. Ltd (UPPTCL), M.P. Power Transmission Corp. Ltd (MPPTCL) etc which keeps counterparty risks low. RSIPL has strategic tie-ups with the Danish Ramboll Group for the use of their designs as well as for the manufacturing of tubular telecom towers against the payment of royalty. Tie-ups with key global players provide the company a competitive edge in the highly competitive tower and fabrication industry.

**Healthy revenue visibility amid strong order book build-up** - The company's strong order book position of ~Rs. 1,379 crore as on October 01, 2019, comprising 10 geographically-diversified projects, resulting into an order book to operating income (OB/OI) ratio of 2 times. This provides healthy revenue visibility over the medium term ICRA expects healthy revenue growth going forward on the back of steady execution in all the projects.

**Healthy debt coverage indicators** – The company's capital structure is conservative with low leverage levels (gearing stands at 0.4 times as on March 31, 2019), primarily on account of low capex undertaken in the past, which has kept RSIPL's long term debt low. Further, with moderate working capital debt utilization, the overall debt level also remained low at Rs 62.2 crore as on March 31, 2019 vis-a-vis net worth of Rs 142.2 crore. The debt coverage indicators stood healthy as characterized by interest coverage of 4.1x and DSCR of 2.7x as on March 31, 2019.

**Efficient working capital management duly reflected in adequate cushion in working capital limits** – The company has demonstrated steady receivable realisation along with comfortable ageing position of less than six months in the past four fiscals. Further, RSIPL enjoys long credit period from its suppliers and sub-contractors, which is supported by a back-to-back payment mechanism. The management's strategy of keeping limited inventory and work-in-progress (WIP) on site led to lower inventory levels at 39 days in FY2019. This all entails to low working capital intensity of 11% in FY2019. This including, regular limit enhancements in the past has led to sufficient cushion in the working capital limits for future planned execution. The average utilization for fund-based stood at around 55% and non-fund-based limits stood at around 80% over the past 12 months. While the absolute exposure to contingent liabilities in the form of bank guarantees, largely for contractual performance remains high (BG outstanding stood at Rs. 319 crore as of December 31, 2019), ICRA, draws comfort from the company's execution track record, with no crystallization of guarantees in the past.

### Credit challenges

**Exposure to execution risk with most orders being in early stages of execution** - As on October 01, 2019, about 54% of RSIPL's current order book is at a nascent stage of execution, with some projects being delayed owing to challenges pertaining to right-of-way (ROW). Since most such approvals are to be obtained by the client, requisite extensions in timeline have been granted without any adverse action taken against RSIPL. Nonetheless, slowdown in the execution due to delay in getting ROW may adversely impact revenue build-up; the progress of these projects as well as other pipeline projects will remain a key monitorable. However, ICRA derives comfort from the company's demonstrated track record of

execution within the timelines. However, ICRA derives comfort from the company’s demonstrated track record of execution within the timelines and notes that billing has started in all the projects in early stages of execution.

**High client concentration risk:** Though the company is executing orders from various state transmission companies and Railways, 48% of the current order book is from two clients – Jharkhand Urja Sancharan Nigam Limited (JUSNL) and Bihar State Power Holding Company Limited (BSPTCL).

**Decline in the operating margins in FY2019-** The company has witnessed decline in the operating margins in FY2019 to 9.9% from 12.7% in previous year primarily on account of the low margins contracts executed in FY2019. Additionally, higher interest expense in FY2019 owing to increased bank charges led to low profit margins despite healthy increase in the operating income.

**Substantial requirement of non-fund based limits going forward -** Given the healthy pace of order bidding and execution, RSIPL’s funding requirements in terms of non-fund based limits along with associated margins and collateral will remain substantial going forward.

### Liquidity position: Adequate

The company has adequate liquidity for its current scale of execution and near-term growth plans, as reflected by the cushion available in sanctioned fund-based and non-fund-based limits and low debt repayment obligations. As on December, 2019 the company has cushion of around Rs 46 crore in the non-fund-based limits and Rs 30.0 crore in the fund based limits. With limited capex requirements in future and comfortable working capital intensity, the dependence on the long-term debt is expected to be low.

### Rating sensitivities

**Positive triggers** – The ratings may be upgraded if the company witnesses a significant increase in revenues and cash accruals on the back of healthy order execution, while simultaneously keeping working capital and debt requirements under check. Specific metrics indicating the same would include decline in working capital intensity to less than 10% and TOL/ TNW to less than 1.25 times.

**Negative triggers** – Negative pressure on the rating could arise if the company’s increasing working capital needs, weigh on its liquidity position substantively. Further delays in project execution would also have a negative impact. Specific metrics indicating pressure on credit risk profile would include an increase in working capital intensity to more than 15%, and interest coverage decline to below 4.0 times.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Construction Entities</a>
Parent/Group Support	NA
Consolidation/Standalone	Standalone

## About the company

Incorporated in 1972, RSIPL was initially established as a partnership firm by the name of R.S. Steel Works. It was later re-constituted as a private limited company in 2005. The company is involved in fabrication, designs, and installation for telecom and power transmission sectors and undertakes projects mainly for Power Transmission and Telecom industries. The company's manufacturing, and galvanising facilities are located in Sikanderabad and Surajpur with an installed capacity of 80,000 MTPA as on March 31, 2019. It is promoted by Mr. Manoj Goel and Mr. Sanjeev Goel.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	496.4	704.1
PAT (Rs. crore)	33.1	34.3
OPBDIT/OI (%)	12.7%	9.9%
RoCE (%)	38.0%	36.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.8
Total Debt/OPBDIT (times)	1.1	0.9
Interest Coverage (times)	4.9	4.1
DSCR	3.0	2.7

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

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 27-February 2020	Date & Rating 21- November 2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Cash Credit	Long Term	80.0	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
2 Bank Guarantee	Long Term	365.0	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
3 Letter of Credit	Short Term	65.0	-	[ICRA]A2+	[ICRA]A2+	-	-
4 Term Loan	Long Term	0.0	0.0	-	[ICRA]A-(Stable)	-	-
5 Unallocated	Long Term	0.0	-	-	[ICRA]A-(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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	80.0	[ICRA]A- (Stable)
NA	Bank Guarantee	NA	NA	NA	365.0	[ICRA]A- (Stable)
NA	Letter of Credit	NA	NA	NA	65.0	[ICRA]A2+

Source: Company

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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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