

November 08, 2019

Rk Infracorp Private Limited: Ratings of [ICRA]BBB(Stable)/A3+ assigned

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based/CC	28.00	[ICRA]BBB (Stable); assigned
Short fund based	120.00	[ICRA]A3+; assigned
Unallocated limits	2.00	[ICRA]BBB (Stable)/[ICRA]A3+; assigned
Total	150.00	

Rationale

The assigned ratings take into account Rk Infracorp Private Limited's (RKIPL) established track record with experience of about three decades in the civil construction industry and healthy revenue growth over the years at a CAGR of ~20% from Rs. 261.00 crore in FY2015 to Rs. 540.49 crore in FY2019 owing to healthy order inflow and ramp-up in execution over the last four years. The ratings also favourably considers strong order book of Rs. 2394.92 crore as on June 30, 2019 which translates to OB/OI ratio of 4.43 times providing revenue visibility in the medium-term; and comfortable financial risk profile as reflected in TOL/TNW of 0.62 times as on March 31, 2019 and interest coverage of 5.55 times, Total debt/OPBITDA of 1.06 times and NCA/Total Debt of 60% in FY2019.

The ratings are however constrained by thin operating margins owing to high subcontracting expenses; and stretched liquidity position of the company with high average fund-based limit utilization of ~94% during the past 15 months owing to large working capital cycle. Also, the project concentration of the order book is moderate and any slowdown in project execution could result in lower billing for the company. Further, the segmental concentration is high with irrigation and road projects accounting for ~86% of the unexecuted order book as on June 30, 2019; and high geographic concentration with majority of the projects located in Telangana and Andhra Pradesh states. ICRA also notes that the company, like other players in the sector, is exposed to intense competition with several large and small - scale players in the construction industry participating in the bidding process, limiting the company's profit margins.

The Stable outlook reflects ICRA's opinion that RKIPL will continue to benefit from the extensive experience of its promoters and strong order-book position of the company.

Key rating drivers

Credit strengths

Healthy revenue growth over the years: The company had witnessed a significant increase in order execution from Rs. 261.0 crore in FY2015 to Rs. 540.49 crore in FY2019 on the back healthy order inflow and ramp-up in execution over the last four years. Revenues in FY2019 was contributed by a total of 47 different projects in the irrigation and road segments across for various state and central government departments. Timely receipt of approvals from authorities and

timely execution of order book will remain critical to company's growth in the medium term given that top 10 projects account for 63% of the order book.

Strong order book position: RKIPL has an order book of Rs. 2394.92 crore as on June 30, 2018, translating to 4.43 times FY2019 revenue providing revenue visibility in the medium term. The company witnessed a healthy order inflow with orders of Rs. 1352.93 crore and Rs. 370.93 crore awarded in FY2018 and FY2019 respectively. The order book majorly consists of irrigation and road projects from various state and central government departments.

Comfortable financial risk profile: Healthy accruals over the last two years improved net worth levels of the company to Rs.106.91 crore in FY2019 resulting in a comfortable capital structure with gearing of 0.26 times and TOL/TNW of 0.62 times as on March 31, 2019. The financial risk profile is comfortable with interest coverage of 5.55 times, Total debt/OPBITDA of 1.06 times and NCA/Total Debt of 60% in FY2019.

Credit challenges

Thin operating profitability: RKIPL subcontracts majority of its works with subcontracting expenses accounting for ~85-87% of total revenues over the last three years and ~80% of the unexecuted order book as on June 30, 2019 resulting in thin operating profitability of ~4.5-5.5% over the years. This includes back-to-back works to other contractors as well as labour contracts for the execution of the projects. The company hires equipment and supplies raw material to its subcontractors for some of the projects resulting in high working capital requirements.

Stretched liquidity position: The company's liquidity position is stretched as reflected by high average fund-based limit utilization of ~94% during the past 15 months owing to high WIP inventory. Further, given the growing order book size and additional orders expected in the medium term, the company has high NFB limit requirement to meet its performance guarantee, mobilization advances guarantee obligations and for the realisation of retention money for the awarded contracts. The company's average non fund based limit utilization remained at ~70% during the last 15 months.

High geographic and segmental concentration: The order book has high geographic concentration with majority of projects in Telangana and Andhra Pradesh with both the states together accounting ~74% of the unexecuted order book. The remaining is contributed by projects in Bihar, Chhattisgarh, Karnataka, Jharkhand, West Bengal and Kerala. The company has been majorly undertaking works in the road and irrigation segments over the years and together account for ~87% of the order book as on June 30, 2019 followed by railway projects accounting for 11% of order book.

Exposed to intense competition in the sector: The company is exposed to intense competition from numerous other players where work orders, largely tender based, are awarded to the lowest bidder by value resulting in volatility in revenue and pressure on margins. However, the longstanding experience of the promoters in the industry and established track record has resulted in healthy order flow.

Liquidity Position: Stretched

The company's liquidity profile is stretched as reflected by high average working capital limit utilization of 94% during the last twelve months. Absence of large repayments and capex plans will support the liquidity to an extent. The ability to secure enhancement in working capital limits remains critical to secure new orders and aid the future growth plans of RKIPL.

Rating sensitivities

Positive Triggers: ICRA could upgrade RKIPL's rating if there is an improvement in order execution and operating profitability of the company on a sustained basis.

Negative Triggers: Negative pressure on RKIPL's rating could arise if there are delays in execution resulting in lower billing for the company; and delays in realization of bills impacting the company's liquidity position.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

RK Infracorp Private Limited (RKIPL), formerly known as R K Engineers (set up as a partnership firm in 1975) and converted into a private limited company in the year 2008, is mainly engaged in execution of road and irrigation works for various government departments and has completed works in Andhra Pradesh, Telangana, Jharkhand, Bihar, West Bengal and Karnataka. RKIPL was acquired by Mr. R. Srinivasa Reddy in the year 2007, who was the managing director of Sree Sai Srinivasa Constructions (P) Ltd (SCPL) which was also into civil construction, and merged with effect from April 01, 2008.

Key financial indicators

	FY 2018	FY2019*
Operating Income (Rs. Crore)	366.65	540.49
PAT (Rs. Crore)	9.82	14.67
OPBDIT/ OI (%)	5.72%	4.83%
RoCE (%)	18.80%	20.96%
Total Debt/ TNW (times)	0.34	0.26
Total Debt/ OPBDIT (times)	1.48	1.06
Interest coverage (times)	3.77	5.55

*Unaudited financials

Status of non-cooperation with previous CRA: CARE, in its rationale published on Rk Infracorp Private Limited, dated October 30, 2019, placed the ratings on Issuer not cooperating category at CARE/BBB/Stable/A3 based on best available information.

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
		Rated (Rs. crore)						
1	Fund based/CC	Long Term	28.00	NA	[ICRA]BBB (Stable)	-	-	-
2	Non fund based	Short Term	120.00	NA	[ICRA]A3+	-	-	-
3	Unallocated Limits	Long Term/Short Term	2.00	NA	[ICRA]BBB (Stable)/[ICRA]A3+	-	-	-

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/CC	NA	NA	NA	28.00	[ICRA]BBB (Stable)
NA	Non fund based	NA	NA	NA	120.00	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	2.00	[ICRA]BBB (Stable)/[ICRA]A3+

Source: Rk Infracorp Private Limited

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