

Press Release

R. R. Constructions and Infrastructure India Pvt Ltd

January 24, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Facility – Fund Based – Cash Credit	Rs. 27.00 crore	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Re-affirmed
2	Short Term Facility – Non Fund Based - Bank Guarantee	Rs. 67.00 crore	IVR A3 (A Three)	Re-affirmed

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating affirmation to the bank facilities of R.R. Constructions and Infrastructure India Pvt Ltd (RRCIPL) continues to derive comfort from its Long track record and established presence in the construction sector, experience promoters and management team, proven project execution capability and comfortable capital structure and debt protection metrics. However, the rating strengths are partially offset by slow moving order book, working capital intensive nature of operations, volatile input prices, counterparty credit risk arising from sub-contract works, highly fragmented and competitive nature of the construction sector with significant price war.

Key Rating Sensitivities

Upward revision factors:

- Growth in scale of operation and profitability.
- Working capital management.
- Ability to complete pending projects within the completion date.
- Significant improvement in debt protection metrics

Downward revision factors:

- Any delay in project execution leading to decline in revenue, profitability & debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths

Long track record & established presence in the construction sector

Having been incorporated in 1994, the company has a track record of more than two decades with the current promoters managing the company since inception. The company has executed various types of civil and structural construction projects, in the fields of transportation, irrigation, thermal power, barrages, bridges and river training, infrastructure development water supply and sewerage systems in India.

Experienced promoters & management team

The founder promoters, Mr. V. Mani Raju and Mr. P. Ravi Shankar, both civil engineers with around 25 years of experience in this field, look after the operations of the company. They are well supported by a management team comprising quite a few highly qualified & experienced professionals.

Proven project execution capability

Over the years, the company has successfully completed many projects across the country for PWD, NHAI and other government bodies. In order to manage the projects in a better way, the company handles limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

Comfortable capital structure and debt protection metrics

Considering the working capital intensive nature of operation, the company has a comfortable capital structure with overall gearing ratio being 0.50x as on March 31, 2019. The total debt comprises of long-term debt amounting to Rs. 15.55 crore taken for purchase of construction equipment and the balance is fund based working capital. Further the company's debt protections parameters are also comfortable, marked by interest coverage ratio of 3.65x and total debt/gross cash accruals of 4.13x as on March 31, 2019.

Key Rating Weaknesses

Healthy order book albeit slow moving, SPV required funding support.

As per the latest order book, the unexecuted portion of the order book as on December end 2019 remains at Rs. 1344.23 crore. Out of which order amounting to Rs. 778.75 crore is slow moving due to various issues. Moreover, the order book also includes two HAM Projects from the PWD of Maharashtra amounting to Rs. 417.50 crore through SPVs. The execution for the same has delayed. The company is projecting to infuse around Rs.11.87 crore out of internal accruals in its SPVs over the next three years in order to execute the HAM projects. As indicated by the management, over the next three years, they are also likely to provide corporate guarantee aggregating to Rs.91.29 crore for the debt to be availed by these SPVs. Considering the net worth of the company, the amount of support to be provided to subsidiaries appears to be significant.

Working capital intensive nature of operation

Construction business is working capital intensive. For this purpose, the company is mainly relying on bank borrowings and long credit period provided by its input suppliers based on its long and established presence. Operating cycle increased gradually during the last three years due to increase in average holding period and average receivable collection days. The average working capital utilisation in the last 12 months ended November 2019, was high at about 88.89%.

Volatile input prices

Major raw materials used in civil/railway construction activities are steel and cement which are usually sourced from large players at proximate distances. Historically, the cost of these raw materials and steel products have been volatile in nature and hence, profitability margins of the company are susceptible to fluctuation in raw material prices and/or finished products.

However, the company has been able to shake off the effect of volatility to a certain extent with the help of inherent cost escalation clause added into the contracts.

Counterparty credit risk arising from sub-contract works

RRCIPL has been undertaking and bidding for contracts as a sub-contractor for other construction firms. In the recently awarded projects, 28.52% of the construction work involves sub-contracting works amounting to Rs. 460.4 crore of the total awarded portfolio value of Rs. 1614.38 crore. Any delays in payment from the counterparty can lead to cash flow mismatch.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied stature & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern as the same can dent the margins.

Analytical Approach:

Standalone Approach

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Liquidity is Adequate, characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs. 12.35 Crore. Its bank limits are utilized to the extent of 88.89%, supported by current ratio of 1.48x.

About the Company

R.R. Constructions and Infrastructure India Pvt Ltd (RRCIPL) was set up in 1994 by two entrepreneurs, V. Mani Raju and P. Ravi Shankar as a partnership firm under the name and style of "RR Constructions" at Chennai. Subsequently in 2007, the firm was converted into a private limited company and rechristened as its present name. The company was engaged in the execution of small civil projects. Since then, the company executed various types of civil,

structural, mechanical and electrical contracts in the fields of transportation, irrigation, dams, barrages, water supply and sewerage systems. Currently, the company is into construction of projects as EPC (Engineering, Procurement, Construction) contractor and under Hybrid Annuity Model (HAM) through SPVs. The company executes projects for both government and private clients.

Financials:

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	137.33	153.38
EBITDA	13.34	18.79
PAT	4.44	8.10
Total Debt	28.52	44.96
Tangible Net-worth	81.94	90.05
EBITDA Margin (%)	9.71	12.25
PAT Margin (%)	3.23	5.26
Overall Gearing Ratio (x)	0.35	0.50

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Limit / outstanding (Rs. cr.)	Rating	Date(s) & Rating(s) assigned in 18-19	Date(s) & Rating(s) assigned in 17-18	Date(s) & Rating(s) assigned in 16-17
1.	Long Term Facility – Fund Based – Cash Credit	Long Term	27.00	IVR BBB- /Stable Outlook	IVR BBB-/Stable Outlook (Dated 06.12.18)	--	--
2.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	67.00	IVR A3	IVR A3 (Dated 06.12.18)	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Fund Based – Cash Credit	NA	NA	Revolving	27.00	IVR BBB-/ Stable Outlook
Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	Up to 7 years	67.00	IVR A3