



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Ram Kumar Narwani

March 26, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Ratings Action
Long Term Bank Facilities - Fund Based	3.00	IVR B-/Stable Outlook (IVR Single B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities - Non-fund based	5.00	IVR A4 (IVR Single A Four)	Assigned
Total	8.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Ram Kumar Narwani (RKN) derives comfort from its long track record of operation under experienced partners, proven project execution capability, satisfactory capital structure and satisfactory debt protection metrics. The ratings also positively factors in improvement in topline and margins in 9MFY20. However, the rating strengths are constraints due to its small scale of operation with geographical concentration of order book, tender based business in highly fragmented & competitive construction sector, poor liquidity, Inherent risk as civil contractor and partnership nature of constitution.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations with improvement in profitability leading to improvement in debt protection metrics on a sustained basis
- Sustainance of the capital structure
- Sufficient liquidity buffer with enhancement in the existing limits or working capital limits utilization below 90% on a sustained basis



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Downward factor:

- Moderation in the scale of operations and /or profitability impacting the debt protection metrics
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x
- Deterioration in liquidity position due to inability to obtain enhancement in the existing limits or high working capital intensity, resulting in heavy utilisation of the existing limits.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track of operation under experienced partners**

RKN has a track record of about two decades. The partners of the firm have around three decades of business experience, which has enabled the firm to bag repeated orders from government entities. The firm has adequate technical and project management capabilities to handle multiple projects at a time and has supported the overall performance. Infomerics believes the long experience of the partners will assist the firm in maintaining healthy relations with the stakeholders in medium term.

- **Proven project execution capability**

Over the past years, the firm has successfully completed many civil construction projects majorly in Madhya Pradesh and ensured timely completion of all its projects.

- **Satisfactory capital structure and debt protection metrics**

The capital structure of the firm remained satisfactory marked by its comfortable leverage ratios marked by overall gearing at 0.60x (0.77x as on Mach 31,2018) and TOL/TNW at 1.70x (1.30x as on Mach 31,2018) as on March 31,2019. The interest coverage ratio and Total debt to GCA also



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remained satisfactory at 4.48 times for FY19 (3.51 times in FY18) and 1.96x in FY19 (1.70x in FY18).

Key Rating Weaknesses

- **Small scale of operation with geographical concentration of order book**

The total operating income of the firm remained erratic over the past three years during FY17-FY19. Moreover, notwithstanding an improvement in scale of operations from Rs.10.37 crore in FY18 to Rs.13.50 crore in FY19 the scale of operation of the firm remained small. The net worth base also remained small at Rs.5.80 crore as on March 31, 2019. Small scale of operations limits the economics of scale benefits and financial flexibility. During 9MFY20, the firm has achieved a total operating income of Rs.12 crore. Orders in hand as on March 23,2020 also stood low at ~Rs.11 Cr. Further, the present unexecuted order book is entirely concentrated in the states of Madhya Pradesh indicating a geographical concentration in its order book. However, the firm has adequate experience to execute projects in the state.

- **Tender Based Business in highly fragmented & competitive construction sector**

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. The firm acquires orders mainly by bidding for tender has floated by government authorities. The firm's scale of operations is hence susceptible to its ability to successfully bid for new tenders and timely completion of projects. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. The firm revenue is dependent on success of winning the tenders in a competitive bidding process, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. Moreover, the firm is largely dependent on timely payments by government to the firm for the work undertaken. Delay in payments can have a negative impact on the business.



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- **Inherent Risk as Civil Contractor**

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the firm is civil constructions.

- **Partnership nature of constitution**

Being a partnership firm, RKN is exposed to inherent risk of withdrawal of capital, spilt in the business and less regulatory compliances.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Poor

The liquidity position of the firm remained poor marked by its weak working capital management and high dependence on working capital borrowings. The bank limits of the firm remain almost fully utilized during the past 12 months ended February, 2020 with instances of overdrafts indicating its poor liquidity position.

About the Firm

Mr. Ram Kumar Narwani of Bhopal establishes Ram Kumar Narwani (RKN) as a partnership firm in the year 2001 along with his family members. The firm is engaged in civil construction and development work of various governments (mainly road construction) through e-Tender process. The firm is registered as a Class-A government contractor in the state of Madhya Pradesh.



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Financials:

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	10.37	13.50
EBITDA	2.45	2.18
PAT	1.30	1.21
Tangible Net worth	4.12	5.80
EBITDA Margin (%)	23.60	16.15
PAT Margin (%)	12.36	8.90
Overall Gearing Ratio (x)	0.77	0.60

*As per Infomerics Standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	
1.	Cash Credit	Long Term	3.00	IVR B-/Stable	-	-	-	
2	BG	Short Term	5.00	IVR A4	-	-	-	

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.

Name and Contact Details of the Rating Analyst:

Name: Mr. Rajat Maheshwari	Name: Mr. Avik Podder
Tel: (011) 24611910	Tel: (033) 46022266
Email: rmaheshwari@infomerics.com	Email: apodder@infomerics.com

About Infomerics:



Infomerics Valuation And Rating Pvt. Ltd.

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 Bank Facilities - CC	-	-	-	3.00	IVR B-/Stable
Short Term Bank Facilities – BG	-	-	-	5.00	IVR A4