



Press Release

RKEC Projects Limited

March 10, 2023

Ratings

| Instrument / Facility | Amount (Rs. crore) | Ratings | Rating Action | Complexity Indicator |
|---------------------------|--------------------|-----------------------------------------------------------------|---------------|----------------------|
| Long Term Bank Facilities | 310.86 | IVR BBB/ Stable (IVR Triple B; with Stable Outlook) | Assigned | Simple |
| Total | 310.86 | Rupees Three Hundred Ten Crore and Eighty Six Lakhs Only | | |

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has assigned long term rating of IVR BBB with a Stable outlook for the bank loan facilities of RKEC Projects Limited (RPL).

The rating draws comfort from the established track record of operations and experienced management, demonstrated track record with proven project execution capability, reputed clientele, healthy order book, comfortable debt protection metrics and financial risk profile. However, these strengths are partially offset by decline in profitability margins, tender based nature of business, working capital intensive nature of operations and susceptibility of operating margin to volatile input prices.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes RPL's will continue to benefit from its operational track record in the business, its reputed clientele and inflow of orders as per the current order book position. The industry outlook is also improving led by the government of India making steady progress in infrastructure growth and development.

IVR has principally relied on the standalone audited financial results of RPL upto 31 March 2022, 9MFY23 provisional and projected financials for FY2023, FY2024 and FY2025, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 350 crore and EBITDA margins
- Improvement in debt protection metrics
- Sustenance of the overall gearing



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Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing
- Low orders inflow or delay in execution of projects

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**
The company commenced its operations in 2005 and has a successful track record of around of more than 15 years in the existing line of business. Overall activities of RPL are managed by Garapati Radhakrishna (Chairman cum Director) who has more than three decades of experience in current line of business. He is ably supported by other two directors namely Ms. Garapati Parvathi Devi and Garapati Ram Mohan. These directors are ably supported by qualified and well experienced management team. Over the years they have built strong relationships with customers and suppliers.
- **Demonstrated track record with proven project execution capability:**
RPL has long track record of more than a decade in EPC segment. Over the years of its operation the company has gradually established its credentials and successfully executed many projects. In order to manage the projects in a better way and to grow in a balanced way, the company has a policy to take up short to medium term projects (18-36 months) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its execution capabilities.
- **Reputed clientele:**
The company is dealing with government and private clients namely, Military Engineering Services, Director General Navy Projects, Public Welfare Department, Adani Infra India Limited, Vishakhapatnam Smart City Cooperation and various ports like Haldia Port Trust, Visakhapatnam Port Trust, Jawaharlal Nehru Port Trust, Cochin Port Trust etc. The company has been associated with most of the key clients for a long time, and the successful execution of the projects has also helped it in getting repeat orders. Due to reputed client profiles, the company has low counterparty credit risk although at times, there can be delays in the realization of some bills.
- **Healthy order book:**
The company has a healthy unexecuted order book position to the tune of about Rs. 1157.60 crore which is to be executed within 2-3 years, thereby providing a moderate revenue visibility over medium term.



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- **Comfortable debt protection metrics and financial risk profile:**

In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and the debt service coverage ratio (DSCR) stood at 1.90x and 1.53x in FY2022. The analysed tangible networth improved to Rs. 149.50 crore in FY2022 from Rs. 145.92 crore in FY2021. The overall gearing stood comfortable at 0.63x in FY2022. The total operating income (TOI) marginally improved by ~3.13% to Rs. 208.65 crore in FY2022 from Rs. 202.31 crore in FY2021. In 9MFY23 the company has achieved TOI of Rs. 201.01 crore.

Key Rating Weaknesses

- **Decline in profitability margins:**

The company's operating profit and net profit margins declined to 11.07% and 2.98% respectively in FY2022 as compared to 14.58% and 6.20% respectively in FY2021, due to increase in operating expenses.

- **Working capital intensive nature of operations:**

RPL's operations are working capital intensive in nature, supported largely by bank borrowings. The average utilisation of fund based and non-fund based working capital limits of the company stood high around ~84.49% and ~85% respectively during the last 12 months ending 31st January 2023.

- **Tender based nature of business:**

The company is mostly getting its orders through tenders floated by various government departments. As the infrastructure industry is highly fragmented due to presence of many organized and unorganized players tender driven nature of business leads to volatility in revenue and profitability. Further, being in infrastructure segment the company is exposed to inherent risks associated in this industry like slowdown in new order inflows, risks of delays in execution etc.

- **Susceptibility of operating margin to volatile input prices:**

The company's operating margins are susceptible to volatility in prices of raw materials, although the same risk has been mitigated to some extent with the presence of price escalation clause.

Analytical Approach: For arriving at the ratings, IVR has analysed RPL's credit profile by considering the standalone financial statements of the company.



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Applicable Criteria:

- [Rating Methodology for Service Companies](#)
- [Financial Ratios & Interpretation \(Non-Financial Sector\)](#)
- [Criteria for Assigning Rating Outlook](#)

Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 20.03 crore, as on 31 March 2022. Against a current portion of long-term debt (CPLTD) of Rs 3.45 crore in FY2022, the company had a cash accrual of Rs. 10.37 crore in FY2022. The company projected to generate cash accruals of Rs. 14.48 crore in FY2023 against a CPLTD of Rs. 3.75 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

RKEC Projects Limited (RPL), incorporated in April 2005 as private limited company in Vishakhapatnam, Andhra Pradesh. Subsequently was converted to public limited company in November 2016. The company got listed on NSE in October 2017. Prior to this company the promoters were running a sole proprietorship firm under the name of RK Engineers and Contractors since 1985 which was taken over by the private limited company in 2005. It is currently being managed by directors Mr. Garapati Radhakrishna), Ms. Garapati Parvathi Devi and Mr. Garapati Ram Mohan. The company is engaged in civil construction work related to industrial projects, marine projects & bridges projects. The company is “Super Special Class” registered contractors with Ministry of Defence which gives unlimited tendering capability. It is also registered as ‘Special Class - Civil’ contractor for Roads & Bridges department, Government of Andhra Pradesh and ‘Super Class’ civil contractor for Public Works Department (PWD), Government of Odisha.

Financials (Standalone):

| For the year ended as on | (Rs. crore) | | |
|---------------------------|-------------|------------|-----------|
| | 31-03-2021 | 31-03-2022 | 9MFY23 |
| | Audited | Audited | Unaudited |
| Total Operating Income | 202.31 | 208.65 | 201.10 |
| EBITDA | 29.49 | 23.09 | 26.55 |
| PAT | 17.46 | 9.19 | 12.05 |
| Total Debt | 95.95 | 93.95 | 91.90 |
| Tangible Networth | 145.92 | 149.50 | 161.55 |
| EBITDA Margin (%) | 14.58 | 11.07 | 13.20 |
| PAT Margin (%) | 6.20 | 2.98 | 5.98 |
| Overall Gearing Ratio (x) | 0.66 | 0.63 | 0.57 |



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Status of non-cooperation with previous CRA: It is under ISSUER NOT COOPERATING category by Brickwork rating via press release dated 30th January 2023.

Any other information: Not Applicable

Rating History for last three years:

| Sr. No. | Type of Instrument/Facility | Current Ratings (Year 2022-23) | | | Rating History for the past 3 years | | |
|---------|-----------------------------|--------------------------------|--------------------------------|----------------------------|-----------------------------------------|-----------------------------------------|-----------------------------------------|
| | | Tenure | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2019-20 |
| 1. | Fund Based | Long Term | 75.86 | IVR BBB /Stable (Assigned) | - | - | - |
| 2. | Non-Fund Based | Long Term | 235.00 | IVR BBB /Stable (Assigned) | - | - | - |

Name and Contact Details of the Rating Analyst:

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and



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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 |
|-----------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Cash Credit | - | - | - | 60.50 | IVR BBB/Stable |
| Bank Guarantee* | - | - | - | 235.00 | IVR BBB/Stable |
| Term Loan GECL-1 | - | - | Dec 2027 | 15.00 | IVR BBB/Stable |
| Equipment Term Loan-1 | - | - | Jul 2023 | 0.04 | IVR BBB/Stable |
| Equipment Term Loan-2 | - | - | Nov 2023 | 0.07 | IVR BBB/Stable |
| Equipment Term Loan-3 | - | - | Oct 2029 | 0.25 | IVR BBB/Stable |

*BG Tenor is more than 1 year

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: Len-RKEC-mar23.pdf (infomerics.com)

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 [Complexity Level of Rated Instruments/Facilities](#).