

Press Release**RR Constructions & Infrastructure India Pvt. Ltd.****December 06, 2018****Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facilities	27.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Short Term Non-fund based facilities	67.00	IVR A3 (IVR A Three)	Assigned
	Total	94.00		

Details of Facilities are in Annexure 1**Detailed Rationale**

The ratings derive strength from the long track record and established presence of the company, experienced promoters and management team and proven project execution capability. The company's healthy order book position along with comfortable capital structure & debt protection metrics also support the rating. The rating, however, is constrained by de-growth in scale of operations during the last 2 years, moderate profitability margins, working capital intensive nature of operation, funding support required by SPVs, volatile input prices along with highly competitive nature of industry. Growth in scale of operation and profitability and higher than envisaged funding required by SPVs are the key rating sensitivities going forward.

List of Key Rating Drivers

- Long track record & established presence in the construction sector
- Experienced promoters & management team
- Proven project execution capability
- Healthy order book reflecting satisfactory medium term revenue visibility
- Comfortable capital structure and debt protection metrics
- De-growth in scale of operation
- Moderate profitability margins

- Working capital intensive nature of operation
- Volatile input prices
- Funding support to SPVs
- Highly fragmented & competitive nature of the construction sector with significant price war

Detailed Description of Key Rating Drivers

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 past.

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.

Healthy order book reflecting satisfactory medium term revenue visibility

The company has a strong order book position with orders across 11 contracts which is about 6.15 times of its FY18 construction revenue. These orders are expected to be completed within next two-three years, indicating a satisfactory medium term revenue visibility. In addition, its increased experience in execution of EPC contracts has helped RRCIPL to bag two HAM projects from PWD which are proposed to be executed through two newly set up SPVs.

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 0.35x as on March 31, 2018. The company does not have any long-term debt and its total debt consists entirely of fund based working capital. Further the company's debt protections parameters are also comfortable, marked by interest coverage ratio of 3.45x and total debt/gross cash accruals of 3.57x as on March 31, 2018.

Key Rating Weaknesses:

De-growth in scale of operation

The company's topline dipped consecutively during the last two years from Rs.175.86 crore in FY16 to Rs.150.85 crore in FY17 and Rs.137.33 crore in FY18. As indicated by the management, the same was on account of delay in obtaining environmental and land clearances in some irrigation projects in Maharashtra and conscious focus more on direct contract, in lieu of sub-contracts, to earn better margin.

Moderate profitability margins

The company's EBITDA margin dipped from 10.43% in FY16 to 9.71% in FY18 on account of rise in employee and admin costs, in the midst of de-growth in revenue. Resultantly PAT margin also dipped from 4.68% in FY16 to 3.23% in FY18.

Working capital intensive nature of operation

The company is mainly relying on bank borrowings and long credit period provided by its input suppliers based on its long and established presence. The collection period, though high at 120-135 days, remained rangebound in the past three years. The average working capital utilisation in the last 12 months ended July 31, 2018, was high at about 91%.

Volatile input prices

Major raw materials used in civil/construction activities are steel and cement which are usually sourced from large players at proximate distances. While the input prices being generally volatile and having direct linkage with state of the economy, the cost of raw materials, as a percentage of gross billing, remained at the same level during the last two years on account of optimum use of raw materials and the associated escalation clause with most of the contracts with tenure of more than 12 months.

Funding support to SPVs

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 networth of the company, the amount of support to be provided to subsidiaries appears to be significant.

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. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of concern for the users with respect to quality of output and for the contractors for margin.

Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

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. Historically, the company had executed about 60% of its projects through sub-contracting, with direct contracts constituting the balance. Over the last two years, the company has been focusing on direct bidding for contracts, consequent upon which the proportion of direct contracts in the order book of the company has become dominant – at about 90% as on March 31, 2018. Due to its increased experience in execution of EPC road

contracts, RRCIPL has managed to bag two projects aggregating to Rs.417.50 crore from PWD, Maharashtra under HAM which the company proposes to execute through two of its recently formed SPVs.

Financials:

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	150.85	137.33
EBITDA	14.08	13.34
PAT	4.59	4.44
Total Debt	28.61	28.52
Tangible Networth	77.50	81.94
EBITDA Margin (%)	9.33	9.71
PAT Margin (%)	3.04	3.23
Overall Gearing Ratio (x)	0.37	0.35

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund based Cash Limits-Credit	Long Term	27.00	IVR BBB-/ Stable Outlook	--	--	--
2.	Non Fund based Limits- LC/BG	Short Term	67.00	IVR A3	--	--	--

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
Fund Based Facilities- Cash Credit	NA	NA	NA	27.00	IVR BBB-/ Stable Outlook
Non Fund based Limits- LC/BG	NA	NA	NA	67.00	IVR A3