

Press Release

R B K Constructions Private Limited

06 September, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 8.06 Cr
Long Term Rating	SMERA B+/Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 8.06 crore bank facilities of RBK Constructions Private Limited (RCPL). The outlook is '**Stable**'.

RBK Constructions Private Limited (RCPL), incorporated in 2011 is a Pune-based company promoted by Mr. Ravindra Babanrao Kasar and Mrs. Shubhangi Ravindra Kasar. The company undertakes civil construction contracts for setting up of industrial factory sheds and related structures. The company also undertakes sub-contracts for construction and up-gradation of roads in Maharashtra.

List of key rating drivers and their detailed description

Strengths:

Experienced and qualified promoters

The promoters, Mr. Ravindra Babanrao Kasar and Mrs. Shubhangi Ravindra Kasar possess extensive experience in the civil construction industry. The company has orders worth Rs. 158.00 crore as on 31 March, 2017 that also include sub-contracts for construction and repair of roads to be completed over the next 20 months.

Comfortable debt protection metrics

The company has comfortable debt protection metrics with interest coverage ratio of 2.93 times for FY2016 as against 2.70 times in the previous year. The net cash accruals to total debt stood at 0.18 times for FY2016 as against 0.32 times in the previous year. The total debt of Rs. 2.88 crore as on 31 March, 2016 consists of only short term debt. However, the company purchased machinery of Rs. 6.30 crore in FY2016-17 funded through long term borrowings of Rs. 3.63 crore and interest-free unsecured loan of Rs. 2.62 crore from related parties. The unsecured loan has been treated as quasi equity as the same is subordinated to bank debt.

Weaknesses:

Small scale of operations

The scale of operations is small. The operating income stood at Rs. 4.42 crore in FY2015-16 compared to Rs. 6.04 crore in the previous year despite operations commencing about six years back. Further, as informed by the management, the company reported operating income of Rs. 16.79 crore (Provisional) for FY2017.

The company initially undertook construction contracts for residential and industrial sheds. However, since March, 2016, the company also started undertaking sub-contracts for construction and up-gradation of roads mainly in Maharashtra. The company is also exposed to intense competition in the civil construction industry.

However, going forward SMERA expects the revenue to improve significantly on account of its healthy order book position of Rs. 158.00 crore as on 31 March, 2017.

Customer concentration risk

Out of the operating income of Rs. 16.79 crore for FY2016-17, around Rs. 12.56 crore was derived from Gannon Dunkerley & Company Limited (GDCL). Further, the unexecuted orders in hand of Rs.158.00 crore consist of orders from GDCL. GDCL is engaged in civil construction, construction of industrial and infrastructure units, irrigation and hydroelectric projects among others for companies engaged in heavy engineering, power, chemicals and the petrochemicals sector. Hence, the company is exposed to customer concentration risk.

Working capital intensive business

The operations are working capital intensive with gross current asset days of 433 for FY2016 as against 306 days in the previous year. This is mainly on account of stretched inventory days of 373 in FY2015-16 as against 135 in the previous year. The inventory mainly consists of work-in-progress of Rs. 3.70 crore which was completed in FY2016-17. Further, the average cash credit limit utilisation stood at 77 percent during the last six months ended 31 March, 2017.

Low tangible networth

The tangible networth is low at Rs. 2.00 crore as on 31 March, 2016 as against Rs. 1.58 crore in the previous year. However, the company has brought in interest-free unsecured loan of Rs. 3.35 crore from related parties. The unsecured loan has been treated as quasi equity as the same is subordinated to bank debt.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company to arrive at the rating.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that RCPL will maintain a stable outlook in the medium term on account of its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining comfortable debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability, or deterioration in the financial risk profile or liquidity position owing to higher than expected working capital requirements.

About the Rated Entity -Key Financials

For FY2015-16, RCPL reported profit after tax (PAT) of Rs. 0.42 crore on operating income of Rs. 4.42 crore as against PAT of Rs. 0.28 crore on operating income of Rs.6.04 crore in the previous year. The networth stood at Rs. 2.00 crore as on 31 March, 2016 as against Rs. 1.58 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

*Annexure - Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	N.A	N.A	N.A.	4.50	SMERA B+/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A.	3.56	SMERA A4 (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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