

Press Release

RNR CONSTRUCTIONS PRIVATE LIMITED

March 21, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA Double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 18.00 crore bank facilities of RNR CONSTRUCTIONS PRIVATE LIMITED. The outlook is '**Stable**'.

The Karnataka-based RNR CPL, was incorporated in 1996 by Mr. S. Nagaraja and Mrs. R. Prema is a Class-1 contractor for civil construction projects. RNR CPL has executed projects for Central Government entities like Central Public Works Department (CPWD) and various State Government entities.

Key Rating Drivers

Strengths

- **Established track record of operations and experience management**

RNR CPL was incorporated in 1996 by Mr. S. Nagaraja and Mrs. R. Prema. Hence has its presence in construction business for over two decades. RNR CPL has executed several projects related to construction of buildings for various government agencies and private entities.

- **Long Association with government agencies**

RNR CPL has executed projects for Central Government entities like Central Public Works Department (CPWD) State Government entities like Mangalore University Karnataka Folklore University Visvesvaraya Technological University (VTU) and Karnataka Health Department. All these departments being a government entity counter-party default risk remains minimal. Although risk associated with delayed payment exist but due to good liasoning and promoter's extensive experience. With the promoter's extensive industry experience timely execution of projects the company has been able to establish long-standing relationship with its client.

- **Healthy financial risk profile**

RNR CPL has healthy financial risk profile marked by low gearing of 0.68 times as on 31 March 2017 as compared to 0.52 times as on 31 March 2016. Total debt mainly consists of working capital borrowings. The company has healthy coverage indicators with interest coverage ratio (ICR) of 3.07 times for FY2017 as compared to 4.62 times for FY2016 and Debt Service Coverage Ratio (DSCR) of 2.43 times for FY2017. The networth of the company stood at Rs9.48 crore as on 31 March 2017 as compared to Rs.8.00 crore as on 31 March 2016. Further the operating margins of the firm stood healthy at 9.26 percent in FY2017.

Weaknesses

- **Tender based nature of business and decline in Operating revenues**

The operations of the RNR CPL are considered to be at moderate level despite the firm being in the construction business from last 22 years. The company has achieved operating income of Rs. 36.00 crore in FY2017 as compared to Rs. 40.35 crore in FY2016. Being a civil contractor the revenue of RNR CPL depends on the number of successful bids and the tenders being released in the financial

• Competitive and fragmented industry

The company is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However this risk is mitigated to an extent as management operating in this environment for last 22 years.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of RNR Construction Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that RNRCPPL will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	36.00	40.35	33.53
EBITDA	Rs. Cr.	3.33	3.15	2.76
PAT	Rs. Cr.	1.48	1.64	1.44
EBITDA Margin	(%)	9.26	7.81	8.24
PAT Margin	(%)	4.11	4.06	4.29
ROCE	(%)	24.06	31.47	68.62
Total Debt/Tangible Net Worth	Times	0.68	0.52	0.29
PBDIT/Interest	Times	3.07	4.62	4.70
Total Debt/PBDIT	Times	1.81	1.23	0.60
Gross Current Assets (Days)	Days	151	80	63

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Available

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto 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. Cr.)	Ratings/Outlook
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Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4+

Contacts

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ABOUT SMERA

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