

Press Release

RDS Project Limited

September 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 585.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (**read as ACUITE A two**) to the Rs. 585.00 crore bank facilities of RDS Project Limited (RPL). The outlook is '**Stable**'.

Delhi-based, RPL was incorporated in 1992 by Mr. Madan Lal Goyal. RPL is engaged in undertaking infrastructure and civil construction activities of Industrial Buildings, Roads and Highways, Dams, Bridges, Marine works (mainly Break Waters, Jetties, Groynes, Piling), Housing Complexes as well as in Real Estate Business. RPL majorly undertakes projects with National Highways Authority of India, Central Public Work Department, Kerala Public Work Department, Other States Public Work Departments, Southern Railways and Andaman & Nicobar Administration. The company has its presence in Chennai, Kochi, Trivandrum, Port Blair and Mizoram.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RPL to arrive at this rating.

Key Rating Drivers:

Strengths

- Established track record of operations and experienced management**

Established in 1992, the company is promoted by Mr. Madan Lal Goyal who has been associated with the sector for more than five decades. Mr. Sumit Goyal (Managing Director) and son of Mr. Madan Lal Goyal has been managing the company's operation since its inception. The management is ably supported by a well-qualified and experienced team of professionals.

Acuité believes extensive experience of the promoters in the industry has helped the company build its market presence.

- Stagnant growth with healthy profitability margins**

RPL registered compounded annual growth rate (CAGR) of ~12.00 percent during the period FY2015 to FY2018 (Provisional). The operating income stood at Rs.460.83 crore in FY2018 (Provisional) as against Rs.445.64 crore in FY2017 and Rs.354.67 crore in FY2016. Further, the company has booked revenue of Rs.70.00 crore for Quarter-I (April to June 2018) and the revenues are expected to be in the range of Rs.450 to Rs.475 crore for FY2018-19. The operating margins stood healthy at 13.77 percent in FY2018 (Provisional) an improvement from 12.58 percent in FY2017. In line with the operating margins, PAT margins stood comfortable at 4.08 percent in FY2018 (Provisional) as against 2.68 percent in FY2017.

Further, the company has an order book of Rs.1270.00 crore as on March 31, 2018 diversified with work orders at Chennai, Kochi, Trivandrum, Port Blair and Mizoram. In-built price escalation clause in most contracts helps to counter risks related to increase in input prices. RPL has also entered into joint ventures with several large players to bid for large mandate tenders. The

company will benefit from its established relationship with such players by leveraging their technical prowess and financial position while contesting such tenders.

Acuité believes that RPL will continue to benefit from its healthy work orders while maintaining its profitability.

- **Comfortable financial risk profile**

RPL has comfortable financial risk profile marked by healthy net worth, low gearing and healthy debt protection measures. Tangible net worth stood at Rs.164.45 crore as on March 31, 2018 (Provisional) against Rs.121.41 crore as on March 31, 2015 on account of healthy accretion to reserves. The leverage and coverage ratios continue to remain healthy. The gearing remained low at 0.69 times as on March 31, 2018 (Provisional) against 0.82 times as on March 31, 2017. The moderate profitability coupled with low gearing levels has resulted in healthy debt protection metrics, with interest coverage of 2.98 times and NCA/TD of 0.30 times in FY2018 (Provisional). TOL/TNW ratio remained moderate at around 1.56 times as on March 31, 2018 (Provisional) on account of high mobilisation advances and trade payables. In FY2018, Net Cash Accruals remained healthy at Rs.32.99 crore against debt repayment obligation of Rs.6.37 crore.

Acuité believes that the debt protection metrics will remain healthy on account of healthy revenue visibility and stable operating margins over the medium term.

Weaknesses

- **Working Capital Intensive Operations**

The company's operations are working capital intensive marked by high Gross Current Asset (GCA) of 230 days in FY2018 (Provisional) as compared to 220 days in FY2017. The GCA days are mainly dominated by high inventory holding of 123 days in FY2018 (Provisional) compared to 144 days in FY2017. The collection period stood at 9 days in FY2018 (Provisional) compared to 3 days in FY2017. Further, working capital is supported by high creditors of 93 days in FY2018 (Provisional). Other current assets of Rs.122.88 crore for FY2018 (Provisional) comprises mainly of advances to suppliers and deposits. The average cash credit utilisation for the past six months stood at ~95 percent.

Acuité believes that efficient working capital management will be a key rating sensitivity.

- **Competitive and fragmented industry**

RPL is engaged as an EPC contractor. This particular sector is marked by the presence of several mid to large sized players. The company faces intense competition from the other players in the sector. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclical in the road sector. However, RPL is certified 'SS Class' contractor which widens the scope for the company as there is no limit to bid for the orders. Also, the recent relaxation of qualification norms by the central government for undertaking road projects is further expected to intensify the competitive scenario in the industry.

Outlook: Stable

Acuité believes that RPL will maintain a 'Stable' financial risk profile over the medium term backed by its experienced management healthy profitability margins and comfortable debt protection metrics. The outlook may be revised to 'Positive' in case of higher-than-expected growth in operating income while maintaining working capital. The outlook may be revised to 'Negative' in case of increased deterioration in liquidity position of the company most likely as a result of substantial increase in inventory holding period or in case of higher-than-expected leverage indicators.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	460.83	445.64	354.67
EBITDA	Rs. Cr.	63.45	56.08	51.50
PAT	Rs. Cr.	18.79	11.96	11.30
EBITDA Margin	(%)	13.77	12.58	14.52
PAT Margin	(%)	4.08	2.68	3.19
ROCE	(%)	18.78	16.71	15.74
Total Debt/Tangible Net Worth	Times	0.69	0.82	0.89
PBDIT/Interest	Times	2.93	2.28	2.37
Total Debt/PBDIT	Times	1.74	2.07	2.21
Gross Current Assets (Days)	Days	231	220	266

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.29	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.16	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB+ / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A2
Letter of credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	301.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A2
Proposed	Not Applicable	Not Applicable	Not Applicable	6.05	ACUITE BBB+ / Stable

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About Acuité Ratings & Research:

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