

Press Release

RMK Infrastructure Private Limited

August 09, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.200.00 Cr. (Enhancement from Rs.100.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3** (read as **ACUITE A three**)' to the Rs.110.35 crore bank facilities of RMK Infrastructure Pvt. Ltd. (RIPL).

Acuite has also assigned its short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.89.65 crore bank facilities RIPL. The outlook is '**Stable**.'

The rating actions derive comfort from RIPL's established presence of nearly a decade in infrastructure segment, experienced management, moderate financial risk profile and rising scale of business, while maintaining healthy operating margin. RIPL's revenue from construction segment grew by ~39per cent annually during FY2019 to FY2021 (Provisional) and its EBITDA margin stood at a strong level of 19.20per cent in FY2021 (Provisional). Further, the company's current order book also stands at a healthy level of Rs.767.92 crore as of May 2021, which offers good revenue visibility in the medium term. However, ratings are constrained by moderately intensive working capital operations, geographical concentration along with pricing pressure due to tender-based business.

About the Company

Pune-based RIPL was established in 2011 by Mr. Ranjit Kakade and is mainly into infrastructure construction and industrial construction. In FY2021, stone crushing business of its group company - Kakade Stone Crusher, was merged into RIPL. The company has 38.25 lakh tons of annual stone crushing capacity.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of RIPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and established presence in infrastructure construction

RIPL is in the business of infrastructural construction since past decade. The company was established in 2011 by Mr. Ranjit Kakade, who is a civil engineer and has ~10 years of experience in the construction segment. The promoter's long experience has enabled RIPL to successfully win the tenders and complete the projects. RIPL has done various infrastructure projects of the state government and Municipal Corporations besides industrial constructions. Current unexecuted order book of RIPL, as of May 2021 stands healthy at Rs.767.92 crore. Further, the company is also looking to expand its rental business, where in constructed industrial sheds are given to other companies on a rental basis.

Under the leadership of Mr. Kakade, the company's revenue, from the construction business, has grown at a CAGR (compounded annual growth rate) of ~39 per cent during the 3 years ending March 31, 2021 (Provisional). Despite Covid-19-led challenges, the company managed to achieve higher revenue from its construction business in FY2021 over FY2020 (Rs.129.67 cr in FY21 vs. Rs.124.40 in FY20). Reported revenue for FY2021 (Provisional) stood higher at Rs.204.54 crore due to merging of stone crushing business of its group company - Kakade Stone Crusher. ~20per cent of stone crushing business is used for captive purpose.

Acuite believes that RIPL's established presence supported by strong experience of the management would continue to support the company's growth even going ahead.

• **Moderate financial risk profile**

RIPL has a moderate financial risk profile marked by rising net worth, moderate but improving gearing position and comfortable debt protection metrics. RIPL's net worth, as on March 31, 2021 (Provisional) stood at Rs.50.04 crore compared to Rs.26.05 crore as on March 31, 2020.

RIPL's gearing position (debt to equity ratio) has continuously improved in the past three years ended March 31, 2021 (Provisional). From 2.74 times as on March 31, 2019, RIPL's debt to equity ratio improved to 1.87 times as on March 31, 2020 and further to 1.60 times as on March 31, 2021 (Provisional). Total debt as on March 31, 2021 (Provisional) stood at Rs.80.01 crore, comprising term loan of Rs.27.68 crore, unsecured loans from directors/related parties of Rs.27 crore and short-term debt of Rs.25.33 crore. Going ahead, with expected improvement in net worth and moderation in debt level, debt to equity ratio is estimated to trend below unity over a medium term, provided no significant debt-funded capex. Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.80 times as on March 31, 2021 (Provisional) compared to 2.99 times a year back.

Interest coverage ratio (ICR) of the company also improved to 6.83 times for FY2021 (Provisional) from ~3.9-4 times in the preceding two years. Debt service coverage ratio (DSCR) too improved to 3.75 times for FY2021 (Provisional) from 2.44 times for FY2020. Going ahead, both the coverage indicators are likely to remain at a comfortable level with ICR standing at ~7 times and DSCR at 3-3.5 times during FY2023-FY2024.

• **Rising scale of business along with healthy operating margin**

While FY2021 revenue growth was supported by merging of stone crushing business into RIPL, the company's revenue from construction segment grew by ~39per cent annually during FY2019 to FY2021 (Provisional). At the same time, the company witnessed a sharp expansion in EBITDA margin. From 13.81per cent in FY2019, RIPL's EBITDA margin increased to 16.57per cent in FY2020 and further to 19.20per cent in FY2021 (Provisional). Higher margin from stone crushing business (~25-30per cent) also supported margin expansion in FY2021 (Provisional). Net profit margin too improved to 11.73 per cent in FY2021 (Provisional) from 7.78per cent in FY2020 and 6.37per cent in FY2019.

Healthy order book (Rs.767.92 crore as of May 2021) and improved overall infrastructural activities would support RIPL's revenue growth going ahead. Acuite expects RIPL's revenue to grow at a CAGR of ~12per cent during FY2022 to FY2024 and its EBITDA margin would remain at a healthy level of 17-18per cent during the same period.

Weaknesses

• **Moderately intensive working capital operations**

RIPL has moderately intensive working capital operations marked by average gross current asset (CGA) days of 166 for the three years ending March 31, 2021 (Provisional). GCA days for FY2021 (Provisional) stood at 212 compared to 151 for FY2020. Working capital cycle is driven by debtor days, which stood at 109 for FY2021 (Provisional) compared to 48 a year ago. Increase in the debtor days was led by merging of stone crushing business. Creditor days, for FY2021 (Provisional) were 66 against 79 for FY2020. Average fund-based bank limit utilization, for the last 4 months through June 2021 was ~96per cent. Acuite believes that RIPL's GCA days would remain at 200-220 level in the medium term. Higher than estimated stretch in debtor days would have a negative bias toward the ratings.

• **Geographical concentration and tender-based business**

RIPL's entire business is from one state i.e. Maharashtra and ~65per cent of revenue is from Pune. Thus, any negative development in this state/district would have a sharp negative implications on RIPL's overall operating performance and so on financial risk profile and liquidity. Although, the company has started looking at expanding in other states.

Further, majority of construction business of RIPL (~90per cent) is based on tenders floated by state government departments, municipal corporations, etc. Thus, the company's revenue is subject to the successful bidding of orders amidst high competitive intensity, which also impacts the pricing power of players.

Liquidity Position-Adequate

RIPL has adequate liquidity marked by sufficient net cash accruals to maturing debt obligations. RIPL generated cash accruals of Rs.29.16 crore for FY2021 (Provisional) against the maturing debt obligations

of Rs.5.52 crore. Current ratio stood at a moderate level of 1.44 times as on March 31, 2021 (Provisional). Amid moderately intensive working capital operations, average fund-based bank limit utilization during the last 4 months through June '21 stood higher at ~96 per cent.

Going ahead, in the medium term, the company is expected to generate sufficient cash accruals to its debt repayment obligations. RIPL's cash accruals are estimated in the range of Rs.32 crore to Rs.37 crore during FY2022 to FY2024 against debt repayment obligations of Rs.4.85 crore to Rs.10.37 crore during the same period.

Aucite believes that the company's liquidity position would remain adequate in the medium term with sufficient net cash accruals to the maturing debt obligations.

Rating Sensitivities

- Delay in execution of orders
- Elongation in working capital cycle

Outlook: Stable

Acuite believes that RIPL would maintain 'Stable' outlook on the back of experienced management with established presence, healthy order book and healthy operating margin. The outlook may be revised to 'Positive' in case the company reports better than expected revenue and improvement in operating margin. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue and elongation in working capital cycle, thereby hurting its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	204.54	124.40
PAT	Rs. Cr.	23.99	9.68
PAT Margin	(%)	11.73	7.78
Total Debt/Tangible Net Worth	Times	1.60	1.87
PBDIT/Interest	Times	6.83	3.87

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

Not Applicable

Material Covenants

Unsecured loans to be minimum Rs.36 crore as on March 31, 2021

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
	Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Assigned)

5-Jul-2021	Bank Guarantee	Short Term	27.86	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	30.49	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	15.65	ACUITE BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Janata Sahakari Bank Ltd.	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB-/Stable (Reaffirmed)
HDFC Bank	Cash Credit	Not Available	Not Available	Not Available	12.00	ACUITE BBB-/Stable (Reaffirmed)
Janata Sahakari Bank Ltd.	Bank Guarantee	Not Available	Not Available	Not Available	27.86	ACUITE A3 (Reaffirmed)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.49	ACUITE A3 (Reaffirmed)
Kotak Mahindra Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Not Applicable	Proposed bank facilities	Not Applicable	Not Applicable	Not Applicable	26.00 (Enhanced from Rs.15.65 Cr.)	ACUITE BBB-/Stable (Reaffirmed)
Not Applicable	Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	89.65	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.*

