

Press Release

R N Constructions

January 11, 2023



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	58.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	28.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	86.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded its long term rating from '**ACUITE BBB- (read as ACUITE triple B minus)**' to '**ACUITE BB+ (read as ACUITE double B plus)**' and its short term rating from '**ACUITE A3 (read as ACUITE A three)**' to '**ACUITE A4+ (read as ACUITE A4 plus)**' on Rs.86.00Cr bank facilities of R N Constructions (RNC). The outlook is '**Stable**'.

The downgrade is on account of deterioration in gearing and Debt-EBITDA levels in FY22, slow moving order book, Intensive working capital cycle, withdrawals of capital by partners and deterioration in liquidity profile.

The rating reflects the promoters extensive experience in civil construction, established track record of operations, presence of healthy order book and moderate financial risk profile. However, the rating is constrained by highly intensive working capital cycle, High geographical concentration risk and stretched liquidity.

About the Firm

Established in May, 2013 and based in Hyderabad, (Andhra Pradesh), R N Constructions (RNC) is a partnership firm setup by Mr. Anaparti Bapineedu and Mr. Devineni Sriman. The partners of firm currently are Mr. Anaparti Bapineedu, Mr. Devineni Sriman, Mr. Annamreddy Venkatewara Rao and other family members. RNC, a closed family owned business, undertakes civil construction activities primarily that of Roads, Highways and Buildings. The firm is a 'Special Class' contractor registered with Government of Andhra Pradesh, Telangana, Karnataka and Madhya Pradesh and undertakes works for Public Works Department, Roads & Buildings Department, Irrigation projects and State and National Highway authorities

Analytical Approach

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

Key Rating Drivers

Strengths

Promoters' extensive experience in civil construction industry; established track record of operations in Telangana; healthy order book providing long term revenue visibility

RNC, a special class civil contractor, has established presence in executing projects related to primarily construction and development of buildings, roads and highways amongst others for both public and private sector. Mr. Anaparti Bapineedu, the managing partner of RNC, has nearly 3 decades of experience in the line of civil construction. Prior to his venture in RNC, Mr. Bapineedu was heading the Operations of Roads Division of Meenakshi Group, Hyderabad and has gained experience in the diversified fields of Infrastructure development. Mr. Devineni Sriman, partner of the firm, has gained 20 years of experience in the mechanical field and possess expertise on various type of construction equipment. With the promoters' extensive industry experience and timely execution of its past projects, RNC has been able to establish long-standing relationship with various government divisions and private players such as Executive Engineer TSEWIDC Division (Medak), Greater Hyderabad Municipal Corporation (GHMC), Larsen & Toubro Limited (L&T) Hyderabad Road Development Corporation Limited (HRDCL) and many region-wise state and national highway authorities amongst others. As per year-to-date figures, till November 30, 2022, the firm has recorded revenue of Rs.123.01Cr. . The firm has outstanding orders value of Rs.758.35Cr as November 30,2022, the same is to be executed in next 12-24 months

Tender based nature of operations; central and state funded projects ensuring timely receivables

RNC executes only tender-based projects mostly funded by central government and state government bodies with low reliance on work received as a sub-contract from other civil construction entities. The funded projects either have budgetary support or are funded by a consortium of banks. Once the tender is allotted, Earnest Money Deposit (EMD) of around 2.0 per cent along with performance guarantee of 5.0 per cent (varies on basis of department, nature, tenure and size of contract work) is deposited against the BG. The firm raises bills on milestone basis. RNC has the option of availing mobilization advance, but avails limited amount from the same. The retention money is usually 5.0 per cent of the contract value which is to be released after a defect liability period of 2-3 years. Out of the 5.0 per cent of the retention money, 3.0 per cent is released upon completion of the project by the end of final bill and rest amount of nearly 2.0 per cent is retained as withheld amount by the authorities. Since, the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. RNC has success rate of 60 per cent in bidding.

Moderate financial risk profile:

Financial risk profile of the firm is moderate in FY22. As the gearing of the firm has deteriorated to 1.68 times as on March 31,2022 from 0.79 times as on March 31, 2021. This is due to new equipment loans taken by the firm in FY22. Net worth of the firm has improved in FY22 to Rs.40 Cr at the same time it is observed that there are withdrawal of partner's capital during FY22. Debt- EBITDA of the firm has deteriorated to 4.25 times in as on March 31,2022 from 2.04 times as on March 31, 2021. Interest coverage ratio and debt service coverage ratio stood at 2.72 times and 1.22 times as on March 31,2022. TOL/TNW of the firm has increased to 2.02 times as on March 31,2022. Acuite believes that financial risk profile of the company will improve in the medium term.

Weaknesses

Intensive working capital cycle:

The firm's working capital cycle is intensive which is evident from the Gross Current Asset (GCA) days of 231 days. GCA days of the firm has increased to 231 days as on March 31, 2022 from 145 days as on March 31, 2021. High GCA days is on account of increased debtor days

to 131 days as on March 31, 2022 from 74 days in the previous year. As the firm follows monthly billing pattern, the bills for the central government funded and special funded projects are to be raised on the month end and the firm will receive the payments within 40-60 days. Current ratio of the firm is healthy at 2.83 times. Bank limits have been moderately utilized at an average of 73 percent in the past 12 months ending November, 2022. Acuite believes that working capital cycle will improve in the medium term

Geographical concentration on the revenue profile:

Out of the pending order book value of Rs.758.36 Cr, 95 percent of the orders are to be executed in Telangana region of R&B department, Public health department of TS. Apart from these orders the firm also has orders which are completely funded by central government like NHAI, Specially funded by central government and state government projects like construction of medical college, Widening of roads, laying of ring road. The firm has executed orders of Rs.154.5Cr as on December 15, 2022, 99 percent of these orders are of Telangana region. The firm only undertakes those projects which are specially funded by central government or state government. This draws high geographical concentration risk on the revenue profile of the company

Susceptibility to tender-based operations

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuite believes that the firm's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Rating Sensitivities

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Improvement in Debt-EBITDA near to 2 times.
- Improvement in gearing.
- Any deterioration in working capital cycle and liquidity profile of the firm.
- Anyweakening of financial risk profile of the firm

Material covenants

None

Liquidity : Stretched

The firms Liquidity position is stretched as the firm has Rs.7.70Cr of NCA's in FY22 to repay its debt repayment obligations of Rs.5.25 Cr for the same period. RNC had modest unencumbered cash and bank balance of Rs.0.46 Cr and current ratio of 2.90 times as on March 31, 2022. The firm has BG Margin money deposited of amount Rs.5.18 Cr as of March 31, 2022. Bank Limits has been utilized at an average of 72 percent during the past 12 months ending November,2022. Acuite believes that the liquidity position of the firm will improve over the medium term

Outlook: Stable

Acuite believes that RNC will continue to benefit over the medium to long term on account

of long track record of operations, experience of the management in the industry and healthy unexecuted order book. The outlook may be revised to 'Positive', in case of in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case RNC registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	157.72	168.81
PAT	Rs. Cr.	4.38	5.54
PAT Margin	(%)	2.78	3.28
Total Debt/Tangible Net Worth	Times	1.61	0.79
PBDIT/Interest	Times	2.72	3.76

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Oct 2021	Bank Guarantee	Short Term	21.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	35.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Proposed Cash Credit	Long Term	15.00	ACUITE BBB- (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE A4+ Downgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BB+ Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	36.00	ACUITE BB+ Stable Downgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Katta Akhil Analyst-Rating Operations Tel: 022-49294065 akhil.katta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, 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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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.