

March 28, 2014

| Facilities | Amount (Rs. Crore) | Ratings |
|----------------------------------|--------------------|------------------------------------|
| Cash Credit | 35.00 | SMERA BB-/Stable (Assigned) |
| Overdraft | 15.00 | SMERA BB-/Stable (Assigned) |
| Bank Guarantee | 236.28* | SMERA A4 (Assigned) |
| Letter of Credit | 65.00 | SMERA A4 (Assigned) |
| Proposed Letter of Credit | 19.72 | SMERA A4 (Assigned) |

* Includes sublimit of inland letter of credit to the extent of Rs.16.00 crore

SMERA has assigned ratings of '**SMERA BB-**' (read as SMERA double B minus) to the fund based bank facilities and '**SMERA A4**' (read as SMERA A four) to the non-fund based bank facilities of RNS Infrastructure Limited (RNS). The outlook is '**Stable**'. The ratings are constrained by the company's tender-based business and stretched working capital cycle. The ratings are also constrained by the company's exposure to project delays involved in infrastructure development. The ratings factor in the risks associated with the company's small-scale operations in a highly competitive real estate industry. The ratings also factor in the risks related to the corporate guarantee extended by the company for the bank facilities of its sister concerns. However, the ratings are supported by the company's strong project execution capability, diversified project mix, healthy revenue growth and moderate gearing and coverage indicators. The ratings are also supported by the company's experienced management and limited exposure to raw material price volatility.

RNS is a Bangalore-based company engaged in infrastructure and real estate development since 1956. RNS undertakes building of tunnels, irrigation systems, bridges, power plants, apartments and highways. The company is a 'Class I' civil contractor in Karnataka, Andhra Pradesh, Tamil Nadu, Maharashtra and Gujarat. RNS is highly dependent on tender-based orders. The company only executes contracts awarded by state and central government undertakings. RNS's working capital cycle is adversely affected by an extended collection period. The company's gross current assets are stretched at 650 days (average for last five years). Moreover, RNS's working capital funds are blocked in retention money (5-10 per cent of the total contract value) held by customers. RNS is a small regional player in a highly competitive real estate industry. The company has completed one real estate project till date. RNS is currently undertaking construction of a residential building (named 'RNS Shriniketan') in Yeshwanthpura, Karnataka. The aforementioned project is 23 per cent complete and bookings are yet to commence. RNS is thus exposed to project saleability risk, which is intensified by the current slowdown in the real estate sector. RNS has extended a corporate guarantee to its sister concern (which has delayed servicing of debt obligations).

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RNS has demonstrated a strong execution capability by completing infrastructure projects worth ~Rs.700 crore over the last six years. The company has undertaken diverse projects involving building of irrigation systems, hospitals, tunnels, factory units, guest houses and hostels. RNS's revenues increased from Rs.133.34 crore in FY2011-12 to Rs.152.72 crore in FY2012-13. Further, the company registered revenues of Rs.190.00 crore during April 2013 to December 2013. RNS reported net profit margin of 3.00 per cent in FY2012-13, as compared with net profit margin of 2.80 per cent in FY2011-12. The company's order book comprises projects worth ~Rs.700 crore, which are likely to be executed over the next four years. Moreover, RNS has received new projects worth ~Rs.296.00 crore in FY2013-14. The company has a moderate financial risk profile marked by leverage (debt-to-equity ratio) of 1.18 times as on March 31, 2013 and interest coverage ratio of 1.56 times in FY2012-13. RNS benefits from its experienced management. Mr. R. N. Shetty, director of RNS, has around four decades of experience in the company's line of business. Mr. Sunil Shetty and Mr. Satish Shetty, directors of RNS, have around two decades of experience in the company's line of business. RNS maintains prices escalation clause in its contracts, thereby limiting the impact of raw material price volatility.

Outlook: Stable

SMERA believes RNS's outlook will remain stable over the medium term on the back of the company's healthy project pipeline, experienced management and established customer relations. The outlook may be revised to 'Positive' in case the company generates healthy cash flows (through successful execution of large projects) while achieving efficient working capital management. Conversely, the outlook will be revised to 'Negative' in case of further stretch in the company's liquidity position, or in case of delays in project execution.

About the company

RNS (initially established in 1956 as a partnership firm named R N Shetty) is a Bangalore-based company incorporated in 1982. RNS is engaged in infrastructure and real estate development. The company undertakes projects for building tunnels, irrigation systems, bridges, power plants, apartments and highways.

For FY2012-13, RNS reported PAT of Rs.4.63 crore on net sales of Rs.152.23 crore, as compared with PAT of Rs.3.74 crore on net sales of Rs.132.00 crore for FY2011-12. The company's net worth stood at Rs.150.01 crore as on March 31, 2013, as compared with Rs.145.57 crore a year earlier.

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