

Press Release

RNS Infrastructure Limited

May 02, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	528.00	-	ACUITE A3 Assigned
Bank Loan Ratings	88.40	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	616.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITÉ BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs 616.40 Cr. bank facilities of RNS Infrastructure Limited (RNS). The outlook is 'Stable'.

The rating assigned reflects RNS's healthy business profile supported by its strong project execution capabilities and long track record of work execution in the various sectors such as Roads, Irrigation, bridges among others. The rating takes into account healthy and diversified order book of approximately Rs. 2,830 Cr to be executed as on February 2022, its above average financial risk profile and strong coverage ratio. The above mentioned rating strengths are partially offset by RNS's working capital intensive operations and the intensity of competition in infrastructure business.

Acuite also takes note of the income tax dispute amount of Rs 82.56 Cr related to the search conducted on the business premises of the RNS Infrastructures Ltd and residential premises of its directors, by the Income Tax Department in 2012. Acuite learns from the management that the aforementioned issue could be further challenged by the tax authorities in Hon'able Supreme Court and is likely to remain sub-judice over the medium term. Acuite also learns that the aforementioned case has not impacted the company's ability to secure orders from Government bodies and neither has this issue impacted the company's execution abilities or its liquidity.

About the Company

Karnataka based RNS was incorporated in the year 1961 by Dr. R N Shetty as a partnership firm, M/s R N Shetty and Company. In 2003, the firm was reconstituted as private limited company and in 2006 as public limited company. The Company has successfully executed many landmark infrastructure projects like dams, highways, bridges, tunnels and power houses under the able guidance of Mr. R N Shetty. The Company is registered as a Class I Civil Contractors in the State of Karnataka, Maharashtra, Goa, Tamil Nadu and Andhra Pradesh and completed number of civil construction projects successfully. The company in joint venture with Sunway Construction BHD, Malaysia has completed two prestigious "golden quadrilateral" Project of the National Highways Authority of India covering a distance of 82

kms from Dharwad to Belgaum at an estimated cost of more than Rs. 400 Cr. It has also executed 3 road projects of total length of 150 Kms under World Bank assistance for improving State Highways under Karnataka State Highways Improvement Project and a 120 kms road for Tamil Nadu State Highways Improvement project.

The directors of the company are Mr Satish Rama Shetty, Mr Sunil Rama Shetty, Mr. Naveen Rama Shetty, Mr. Sankappa Keremane Shetty, Mr. Shivabasayya Siddaramayya Hiremath and Mr. Samtha Abhayanand Shetty.

About the Group

RNS Group has diverse interests in construction, properties, automobiles, manufacture, power, hospitality and education. The group is operating in different segments through companies namely Murudeshwar Ceramics Ltd, Murudeshwar Power Corporation Ltd, RNS Power Ltd, Naveen Hotels Ltd, RNS Motors Ltd, Naveen Mechanised Construction Co.Pvt.Ltd, Naveen Structural & Engineering Co Pvt Ltd, Fire Bricks & Potteries Pvt. Ltd. and R N Shetty Trust.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of RNS to arrive at the rating.

Key Rating Drivers

Strengths

>Long operational record and Strong order book

RNS was originally set up by Mr. R N Shetty in 1961 as a partnership firm, M/s R N Shetty and Company. The firm was reconstituted as a private limited company in 2003 and public limited company in 2005 as RNS Infrastructure Ltd. The directors of the company Mr Sunil Rama Shetty and Mr Naveen Rama Shetty has an experience of almost two decades in this line of business. The Company is registered as a Class I Civil Contractors in the State of Karnataka, Maharashtra, Goa, Tamil Nadu and Andhra Pradesh and completed number of civil construction projects successfully. Also, the company has executed, the Indi Branch Canal of Upper Krishna Project funded by the World Bank.

The company has healthy order book value of Rs 2830 crore in hand pending to be executed as on 28.02.2022. In current year, the company has obtained new orders of Rs 2680 crore that is almost 7 times of the average top line of the company. The long established track record and operation is also reflected through marginal growth in revenue from Rs 288.31 crore in FY 2020 to Rs 335.28 crore in FY 2021. And also, in current financial year the company has already booked Rs 266.05 crore of Revenue till mid-March 2022.

Acuité believes RNS will continue to benefit from its long track of operations, healthy order book and the rich experience of the management.

>Above Average financial risk profile

The financial risk profile of the company stood healthy marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.297.83 Cr as on 31 March, 2021 as against Rs.286.28 Cr as on 31 March, 2020, increase in net worth is majorly due to accretion of profits in reserves. The total debt of the company stood at Rs.172.24 Cr includes Rs.94.64 Cr of long term debt, and Rs.77.60 Cr of short term debt as on 31 March, 2021. The company follows a conservative financial policy with gearing (debt-equity) stood at 0.58 times as on 31 March, 2021 as compared to 0.51 times as on 31 March, 2020 and Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.04 times as on 31 March, 2021 & 31 March, 2020. Interest Coverage Ratio stood at 2.67 times for FY2021 as against 2.56 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 2.32 times in FY2021 as against 2.21 times in FY2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.18 times for FY2021. However, it is to be noted that company has given an advances to related parties of Rs 45.50 Cr and has received an advances of Rs 15.88 Cr other than that company has done investments of Rs 37.84 Cr in related parties. Hence, adjusted Debt/Equity stood at 0.75 times and TOL/TNW stood at 1.34 times as on 31 March, 2021.

Acuité believes that the financial risk profile of the RNS is likely continue to remain healthy on account of steady margins and conservative financial policy.

Weaknesses

>Working Capital Intensive Operations

The working capital management of the company is intensive marked by GCA days of 397 days in FY2021 as against 455 days in FY2020. The debtor days stood at 53 days in FY2021 as against 67 days in FY2020. However, the inventory days remain around 326 days for FY 2021 as against 362 days for FY 2020, the inventory majorly constitutes of work-in-progress which is related to the bills pending for approval with Karnataka Government related to the work completed. The average working capital limit utilization of company remains around 92.43% on an average for 6 months ended February 2022.

Acuité expects the working capital management to remain intensive over the medium term on account of the delay in approval of bills raised to Karnataka Government.

>Highly Competitive Industry

The infrastructure is a fairly fragmented industry with a presence of few large pan India players where subcontracting & project specific partnerships for technical/financial reasons are fairly common. The company faces stiff competition with its competitors in procuring orders through bidding, immense competition for procuring tenders leads to very competitive pricing which in turn lead to stress on the margins. Moreover, susceptibility of raw material pricing again keeps profit margin vulnerable risk and key sensitivity factor. However, presence of price escalation clause prevents the company from exposure to raw material price fluctuations to some extent.

Also, the vast experience of the promoters give the company an edge in procuring big size ticket orders but the stability of the order size in diversified segment is the key sensitive factor.

Rating Sensitivities

- Improvement in scale of operations and profitability margin.
- Stretch in working capital cycle leading to liquidity issues.

Material covenants

None.

Liquidity Position: Adequate

The company's liquidity position is adequate marked by sufficient net cash accruals against its maturing debt obligations. The company has net cash accruals in the range of Rs.28.51-32.69 Cr from FY 2019- 2021. And is expected to generate a sufficient cash accrual in the range of Rs 32.97-42.50 Cr against the maturing repayment obligations of around Rs 24.80-26.36 Cr over the medium term. The working capital management of the company is intensive marked by GCA days of 397 days in FY2021 as against 455 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.2.41 Cr as on March 31, 2021. The current ratio stands at 3.02 times as on March 31, 2021. The average bank limit utilization for the past 6 months ending February 2022 is ~ 92.43 percent.

Outlook: Stable

Acuité believes the outlook on RNS will remain 'Stable' over the medium term backed by its long track record of operations, healthy order book position and healthy financial risk profile. The outlook may be revised to 'Positive' if the company is able to ramp up its scale of operation along with sustenance in the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity profile due to increase in working capital requirement.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	335.28	288.31
PAT	Rs. Cr.	12.18	10.70
PAT Margin	(%)	3.63	3.71
Total Debt/Tangible Net Worth	Times	0.58	0.51
PBDIT/Interest	Times	2.67	2.56

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	360.00	ACUITE A3 Assigned
Karnataka Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 Assigned
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3 Assigned
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A3 Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Assigned

Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Assigned
Karnataka Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.50	ACUITE BBB- Stable Assigned
Karnataka Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.50	ACUITE BBB- Stable Assigned
		Working					ACUITE
State Bank of India	Not Applicable	Capital Term Loan	Not available	Not available	Not available	1.00	BBB- Stable Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.50	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.18	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	5.72	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.00	ACUITE BBB- Stable Assigned

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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.

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