

## Press Release

### RNS Infrastructure Limited

April 07, 2023



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	116.40	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	500.00	-	ACUITE A3   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	616.40	-	-

### Rating Rationale

Acuite has reaffirmed its long term rating to '**ACUITE BBB- (read as ACUITE Triple B Minus)**' and short term rating to '**ACUITE A3 (read as ACUITE A Three)**' to the Rs 616.40 Cr. bank facilities of RNS Infrastructure Limited (RNSIL). The outlook is '**Stable**'.

#### Rationale for Rating

The rating reaffirmation reflects RNS's healthy business profile supported by its strong project execution capabilities and long track record of execution in the various sectors such as Roads, Irrigation, bridges amongst others. The improvement in the business performance is reflected through the increase in scale of operation in FY2022 as compared to the preceding years due to healthy execution of its order book in FY2022. The company has recorded an operating income, which stood at Rs.402.63 crore in FY2022 as against Rs.335.28 crore in FY2021. The growth in revenue is expected to be sustained in medium term backed by current executable order book position of ~Rs.2,306 crore as on March 2023. The operating margins on the other hand remained stable in the range of 15-17%. Also, the financial risk profile of the company stood healthy marked by healthy net worth, low gearing and moderate debt protection indicators due to sustenance of healthy profitability margin. The above mentioned rating strengths are partially offset by RNS's working capital intensive operations, high competitive pressures in infrastructure business and risk of executing projects.

#### About the Company

RNSIL 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, manufacturing, 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

The promoters have been engaged in the EPC business since 1961. The directors of the company Mr Sunil Rama Shetty and Mr Naveen Rama Shetty have 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 2306 crore in hand which is to be executed over the medium term. In current year, the company has currently 1 real estate project in pipeline from Bangalore worth Rs.225 crore which is slated to be completed by FY2025.

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

##### >Healthy 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.308.72 crore as on 31 March 2022 as against Rs.297.83 crore as on 31 March, 2021. The total debt of the company stood at Rs.195.94 crore, includes Rs.90.36 crore of long-term debt, Rs.24.92 crore of CPLTD and Rs.80.66 crore of short-term debt as on 31 March, 2022. The gearing (debt-equity) stood at 0.63 times as on 31 March 2022 as compared to 0.58 times as on 31 March, 2021. Interest Coverage Ratio stood at 2.25 times for FY2022 as against 2.67 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.58 times in FY2022 as against 1.80 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.68 times as on 31 March, 2022 as against 1.04 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.19 times for FY2022 as against 0.18 times for FY2021.

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 remained intensive marked by GCA days of 451 days in FY2022 as against 397 days in FY2021. The debtor days stood at 64 days in FY2022 as against 53 days in FY2021. The average credit period allowed to customers is of ~60 days for irrigation projects and monthly basis for road projects (especially from NHAI). The creditor days stood at 276 days in FY2022 as against 79 days in FY2021. The inventory holding period of the company stood at 388 days in FY2022 as against 326 days in FY2021. It majorly constitutes of work-in-progress. The high working capital intensity has led to increased reliance on working capital limits. The average utilization of bank facilities is at ~85 percent in last 9 months ending Feb' 2023.

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.

### >Project Execution Risk

The construction of one of the commercial project of the company is currently at a nascent stage wherein the cost incurred is Rs.113 Cr till March 2023 out of total project cost of Rs.225 Cr. The cost incurred till date is only through internal accruals of the company. Further, the company also has dependence on sales traction with 25% of the project being expected to be funded through advances from customers/term loan to be received. Thus, over-reliance on Advance from Customers to fund the project may cause delay in completion of the project on time might lead the company to achieve lower sales targets.

Acuité believes that execution of the project on timely manner without any cost overruns is a key rating sensitivity.

### >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 generated net cash accruals of Rs.36.90 Crore in FY2022 against matured debt obligations of Rs.24.92 Cr in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.52.60-74.83 crores over the medium term against expected matured debt obligations of Rs.28.08-Rs.31.63 crore during the same period. The working capital management of the company is intensive marked by GCA days of 451 days in FY2022 as against 397 days in FY2021. The company maintains unencumbered cash and bank balances of Rs.0.53 crore as on March 31, 2022. The current ratio stands at 2.65 times as on March 31, 2022 as against 2.78 times as on March 31, 2021. The average utilization of its Fund-based limits is at ~85 percent and for non-fund based is at ~60 percent in last 9 months ending Feb' 2023. Current Bank Guarantee's O/s as on 17<sup>th</sup> March 2023 is Rs.291.84 crore.

Acuité believes that the liquidity of RNSIL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations

### 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

### Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	402.63	335.28
PAT	Rs. Cr.	14.03	12.18
PAT Margin	(%)	3.49	3.63
Total Debt/Tangible Net Worth	Times	0.63	0.58
PBDIT/Interest	Times	2.25	2.67

### 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

In order to inform the investors about complexity of instruments, Acuite 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](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 May 2022	Working Capital Term Loan	Long Term	0.50	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	1.00	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	1.50	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	2.18	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	5.72	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	1.50	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	360.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Assigned)

Bank Guarantee	Short Term	38.00	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	50.00	ACUITE A3 (Assigned)
Cash Credit	Long Term	25.00	ACUITE BBB-   Stable (Assigned)
Cash Credit	Long Term	5.00	ACUITE BBB-   Stable (Assigned)
Cash Credit	Long Term	15.00	ACUITE BBB-   Stable (Assigned)
Cash Credit	Long Term	5.00	ACUITE BBB-   Stable (Assigned)
Cash Credit	Long Term	5.00	ACUITE BBB-   Stable (Assigned)
Cash Credit	Long Term	15.00	ACUITE BBB-   Stable (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	50.00	ACUITE A3   Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	360.00	ACUITE A3   Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A3   Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A3   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB-   Stable   Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB-   Stable   Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.30	ACUITE BBB-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	35.00	ACUITE BBB-   Stable   Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.18	ACUITE BBB-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.79	ACUITE BBB-   Stable   Reaffirmed
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	4.38	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.75	ACUITE BBB-   Stable   Reaffirmed



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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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