

December 29, 2022

## Ramkrishy Infrastructure Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument*               | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                          |
|---------------------------|--------------------------------------|-------------------------------------|--|
| Long-term Fund-based – CC | 29.00                                | 32.00                               | [ICRA]BBB(Stable); reaffirmed/assigned |
| Long-term Fund-based – TL | -                                    | 7.14                                | [ICRA]BBB(Stable); assigned            |
| Non-fund based            | 95.00                                | 97.00                               | [ICRA]A3+; reaffirmed/assigned         |
| <b>Total</b>              | <b>124.00</b>                        | <b>136.14</b>                       |  |

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation continues to take comfort from Ramkrishy Infrastructure Pvt. Ltd.'s (RIPL) healthy order book of Rs. 566.9 crore as on September 30, 2022 (1.87 times of FY2022 revenues), which provides adequate medium-term revenue visibility. The ratings factor in RIPL's above average financial profile, characterised by a moderate capital structure with TOL/TNW of 1.7 times as on March 31, 2022 and comfortable coverage indicators (interest coverage of 6.5 times for FY2022). The ratings continue to draw comfort from RIPL's established track record in executing building construction projects, with low counterparty risk as most of the customers are state government entities.

The ratings, however, remain constrained by RIPL's modest scale of operations, high customer and project concentration as the top three customers and top five projects account for 82% and 42% of the outstanding order book, respectively. Further, RIPL is exposed to geographical concentration risk as Karnataka contributes to the entire pending order book, exposing it to economic and political risks pertaining to a single region. The company is further exposed to project execution risk with 36% of the order book in the initial stage of execution (less than 10%). The ratings are constrained by the asset liability mismatch (ALM) arising from high encumbered cash requirements for availing non-fund based limits, and sizeable capital advances towards property acquisition, coupled with insufficient long-term funding sources. With likely replacement of cash margins by the properties, the ALM is expected to be corrected and remains a key rating monitorable. The ratings factor in the modest operating margins at 6.6% in FY2022 and exposure of its profit margins to adverse variation in the raw material, labour, and other input costs, as the price escalation clauses cover only a part of the price hikes.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that RIPL will continue to benefit from its healthy order book position and execution, along with timely receipt of payments from its key customers.

### Key rating drivers and their description

#### Credit strengths

**Established track record of promoters in civil construction industry** – RIPL's promoters have nearly two decades of experience in the civil construction industry and have executed projects in Karnataka and Telangana. The company has proven execution capability in the building construction and road development projects. It has executed several projects for various Government agencies, which supports its order inflow.

**Moderate order book provides revenue visibility in the near to medium term** – RIPL has an order book position of Rs. 566.9 crore (1.87 times of the revenues in FY2022) as on September 30, 2022. These orders mainly include construction of buildings for the Karnataka Residential Educational Institutions Society (KREIS), Health and Family Welfare Department (H&FWD),

Karnataka State Police Housing and Infrastructure Development Corporation Limited (KSPH & IDCL). Most of the contracts in the current order book have an execution period of 18 to 24 months, lending medium-term revenue visibility. The company reported 30% growth in revenues in FY2022, which is expected to sustain in FY2023 on the back of healthy order execution.

**Comfortable debt coverage indicators** – RIPL’s capital structure remains comfortable with gearing of 0.1 times and TOL/TNW of 1.7 times as on March 31, 2022. The coverage indicators are comfortable, as reflected in interest coverage at 6.5 times for FY2022. ICRA expects that the company’s debt coverage metrics will remain comfortable, with interest cover remaining above 6 times over the medium term.

### Credit challenges

**High client and geographical concentration** – The top three customers and top five projects accounted for 82% and 42% of the order book, respectively, as on September 30, 2022. Any delay in execution or payments can affect the company’s revenues and liquidity position. Additionally, Karnataka contributes to RIPL’s entire pending order book, which exposes it to economic and political risks pertaining to a single region with no plans to geographically diversify in the immediate future. It remains exposed to the project execution risk with 36% of the order book in the initial stage of execution (less than 10%).

**Asset liability mismatch** – RIPL’s bankers have earmarked high encumbered cash for availing non-fund based limits and the company has extended sizeable capital advances towards property acquisition, which was primarily funded by short-term capital advances from customers. Consequently, this has resulted in ALM. Nonetheless, it has adequate buffer in its fund-based working capital lines, which along with unencumbered cash supports its liquidity position. With the expected replacement of cash margins by properties, the ALM is likely to be corrected in the current fiscal. RIPL’s ability to correct the ALM by raising long-term funds and release funds blocked as margin money remains a key rating monitorable.

**Modest operating margins and intense competition in construction industry** – RIPL’s profit margins are exposed to the fluctuations in the prices of its key inputs as the price escalation clauses cover only a part of the increase in raw materials. Due to this, its margins declined to 6.6% in FY2022 from 7.6% in FY2021 and the impact on margins in FY2023 remains to be seen, given the elevated inputs prices. The company is exposed to intense competition in the tender-based contract awarding system, resulting in volatility in revenue and pressure on margins.

### Liquidity position: Adequate

RIPL’s liquidity is adequate, supported by positive cash flow from operations, cushion in working capital limits and free cash balances. The company has a moderate utilisation of fund based working capital limits at 55% during September 2021 to November 2022, with free cash and bank balance of Rs. 13.2 crore as on September 30, 2022. It has a repayment obligation of Rs. 2.0 crore in FY2023, which can be comfortably met from its cash flow from operations.

### Rating sensitivities

**Positive factors** – ICRA may upgrade the ratings if the company’s revenue increases on a sustained basis, while improving its profitability and liquidity position.

**Negative factors** – Pressure on RIPL’s ratings may arise if there is a decline in revenues or profitability, or if an increase in working capital intensity adversely impacts its liquidity position. Further, inability to rectify the ALM will also be a credit negative. Specific credit metrics that could lead to a downgrade of RIPL’s ratings include TOL/TNW increasing beyond 1.8 times on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Construction Entities</a> |
| Parent/Group support            | Not Applicable  |
| Consolidation/Standalone        | Standalone  |

## About the company

Incorporated in 2008, RIPL is a Bengaluru-based construction contractor and a Class-I contractor with the Government departments. It undertakes building and road construction work for various government entities in Karnataka. Its clientele includes KREIS, KHB, KPWD and H&FWD, among others. RIPL's Managing Director, Mr. K. V. Krishna Reddy, has nearly 17 years of experience in the civil construction industry through a partnership firm, Krishna Constructions (established in 2004), which subsequently merged its operations with RIPL in 2012.

### Key financial indicators (audited)

| RIPL   | FY2021 | FY2022 |
|--|--------|--------|
| Operating income                                     | 232.8  | 303.2  |
| PAT  | 9.7    | 13.2   |
| OPBDIT/OI  | 7.6%   | 6.6%   |
| PAT/OI   | 4.2%   | 4.4%   |
| Total outside liabilities/Tangible net worth (times) | 1.4    | 1.7    |
| Total debt/OPBDIT (times)                            | 1.2    | 0.5    |
| Interest coverage (times)                            | 5.8    | 6.5    |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| Instrument | Type           | Current rating (FY2023)  |   |                         | Chronology of rating history for the past 3 years |                         |                         |                         |                    |
|------------|----------------|--------------------------|---|-------------------------|---|-------------------------|-------------------------|-------------------------|--------------------|
|            |                | Amount rated (Rs. crore) | Amount outstanding as on Sep 30, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2023                           | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |                    |
|            |                |                          |   | Dec 29, 2022            | Dec 16, 2022                                      | Sep 30, 2021            | Jun 01, 2020            | Mar 19, 2020            |                    |
| 1          | Cash credit    | Long term                | 32.00   | 28.5                    | [ICRA]BBB (Stable)                                | [ICRA]BBB (Stable)      | [ICRA]BBB (Stable)      | [ICRA]BBB (Stable)      | [ICRA]BBB (Stable) |
| 2          | Term Loan      | Long term                | 7.14  | 7.14                    | [ICRA]BBB (Stable)                                | -                       | -                       | -                       | -                  |
| 3          | Bank guarantee | Short term               | 97.00   | 75.8                    | [ICRA]A3+   | [ICRA]A3+               | [ICRA]A3+               | [ICRA]A3+               | [ICRA]A3+          |

## Complexity level of the rated instruments

| Instrument                         | Complexity Indicator |
|------------------------------------|----------------------|
| Long-term Fund-based – Cash credit | Simple               |
| Long-term Fund-based – Term loan   | Simple               |
| Non-fund based – Bank guarantee    | Very simple          |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA   | Cash credit     | NA               | NA          | NA       | 32.00                    | [ICRA]BBB (Stable)         |
| NA   | Term Loan       | 2020             | NA          | 2026     | 7.14                     | [ICRA]BBB(Stable)          |
| NA   | Bank guarantee  | NA               | NA          | NA       | 97.00                    | [ICRA]A3+                  |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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