February 27, 2023

R. K. Transport Co.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Fund-Based – Bank Guarantee	55.00	55.00	[ICRA]BBB+ (Stable) / [ICRA]A2+; reaffirmed
Total	**55.00**	**55.00**	

Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in R.K. Transport Co.'s (RKTC) established track record in the contract mining business, as reflected by its reputed clientele and healthy order book position. ICRA notes that RKTC had a healthy outstanding order book of around Rs. 1,547 crore (adjusted for non-moving/cancelled orders) as on March 31, 2022, which is almost six times of the FY2022 operating income providing revenue visibility in the coming years. The ratings also factor in the comfortable financial profile of the entity, as reflected by healthy profitability indicators, a conservative capital structure, strong debt coverage metrics, and sizeable cash/bank balance, supporting the liquidity. Notwithstanding an increase in borrowings since FY2021, RKTC's debt coverage indicators remained strong, evident from an interest coverage of 13.17 times and Total Debt/OPBIDTA of 0.92 times in FY2022. Given the company's intent to fund upcoming capex largely from internal accruals, the coverage and leverage indicators are expected to improve further in FY2023. The ratings also factor in the presence of a price-escalation clause in most of its long-term contracts, which protects the firm's margins from any adverse fluctuations in input costs to a large extent.

The ratings are, however, constrained by RKTC's exposure to high client and project concentration risks. RKTC derived its entire revenues in FY2022 from two of its customers- BCCL and Hindustan Copper Limited (HCL). Additionally, the largest order (from BCCL) accounted for around 90% of the total outstanding order book as on March 31, 2022, thereby accentuating client and project concentration risks. Nevertheless, RKTC's counterparty risk remains low as all the pending contracts are from Government/PSU entities. The entity also remains exposed to execution challenges because of the regulatory hurdles associated with mining, as well as potential law and order issues in the mining regions. ICRA notes that although the entire responsibility of getting regulatory clearances lies with the mining leaseholder, it may impact the firm's revenue if the key projects get delayed. While arriving at the ratings, ICRA has also factored in the risks associated with RKTC's legal status as a proprietorship firm, including the risks of capital withdrawal by promoters. ICRA has also noted the proposed conversion of the proprietorship firm into a private limited entity, going forward. While the proposed conversion would mitigate the capital withdrawal risk, any leakage of liquidity/capital in the resultant entity following the conversion process would be a credit negative.

The Stable outlook on the long-term rating reflects ICRA's belief that the entity's financial profile would remain healthy, supported by the prudent capital allocation, healthy profit margins, and long revenue visibility from outstanding projects.

Key rating drivers and their description

Credit strengths

Healthy order book position giving revenue visibility over the medium term – RKTC had a healthy outstanding order book of around Rs.1,547 crore (adjusted for non-moving/cancelled orders) as on March 31, 2022, which is almost six times of the FY2022 operating income, thereby providing revenue visibility over the medium term. With a heathy order book and strong execution capabilities, the revenues and absolute profits witnessed a healthy growth in FY2022, and ICRA expects a 7-10% annual growth in the turnover, going forward.

Established track record of two decades in the contract mining business – The entity has been in the business of contract mining of coal and other minerals since 1999 and has successfully executed many projects in the past for reputed customers like Hindustan Copper Ltd. (HCL), Steel Authority of India Ltd. (SAIL), The Singareni Collieries Company Ltd., Hindalco Industries Ltd. (HIL), and Bharat Coking Coal Ltd. (BCCL), among others.

Healthy financial profile, as reflected by healthy profitability indicators, conservative capital structure, strong debt coverage metrics and sizeable cash balance – The entity's profitability and margins have remained better than many of its competitors over the last several years, as reflected by healthy operating profit margins in the range of 31-36% and RoCE of 23-36%. Although the total debt increased somewhat during FY2022, the gearing remained low at 0.48 times as on March 31, 2022, on the back of healthy cash accruals. Its debt coverage indicators also remained strong, evident from an interest coverage of 13.17 times and Total Debt/OPBIDTA of 0.92 times in FY2022. Besides, the entity's intent to increase its reliance on internal accruals to fund its capex is expected to further improve the debt coverage metrics in the near term. The liquidity position of the entity continued to remain strong, reflected in its sizeable free cash/bank balance aggregating to ~Rs. 225 crore as on March 31, 2022.

In-built price-escalation clause for fuel and labour protects margins to a large extent – The principal operating costs for RKTC are diesel, consumables, and labour. For most long-term contracts of RKTC, the in-built clause for price escalation in fuel and labour helps protect its profit margins, to a large extent.

Credit challenges

High client and project concentration risks – RKTC derived its entire revenues in FY2022 from two of its customers – BCCL and HCL. Additionally, the largest order (from BCCL) accounted for around 90% of the total outstanding order book as on March 31, 2022, thereby accentuating client and project concentration risks. Nevertheless, RKTC's counterparty risk remains low as all the pending contracts are from Government/PSU entities.

Exposed to regulatory risks associated with mining – RKTC's exposure to sectoral concentration risks remains high as it derives a sizeable chunk of its revenues from coal mining. Mining operations remain exposed to the regulatory risk, which can lead to potential disruptions in operations in case of violation of statutory norms by the lessee. Moreover, the mining belts are prone to law and order problems, which may result in unforeseen delays in project execution. While the entire responsibility of getting regulatory clearances lies with the mining leaseholder, it may impact the revenues of contract miners, like RKTC, if the key projects get delayed.

Risks associated with RKTC's status as a proprietorship firm – Given RKTC's constitution as a proprietorship firm, it is exposed to discrete risks including the possibility of sizeable capital withdrawal and/or business discontinuity.

Liquidity position: Strong

RKTC is expected to generate positive free cash flows in FY2023/ FY2024, supported by comfortable revenue visibility, healthy operating margins, and efficient working capital management. Although it has sizeable debt repayment obligations, going forward, owing to the debt-funded capex undertaken in the previous fiscals, ICRA expects the free cash flows to remain adequate to meet its debt service obligations. In addition, the liquidity position is strengthened by free cash/bank balance of ~Rs. 225 crore outstanding as on March 31, 2022. Therefore, the company's liquidity is assessed as strong.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of RKTC, if there is a significant increase in revenues, with sustained healthy profitability and diversification in its order book.

Negative factors – Pressure on RKTC's ratings could arise in the following scenarios: (1) if there are significant delays in execution of existing projects adversely impacting revenues and cash flows, (2) Higher-than-expected debt-funded capital expenditure leading to a deterioration of capital structure and debt coverage metrics, and (3) Any significant capital withdrawal adversely impacting the net worth and liquidity position may also lead to a rating downgrade. Specific metrics that could lead to ratings downgrade would be Net debt/OPBDITA greater than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of RKTC

About the company

RKTC is a sole proprietorship firm involved in the contract mining of coal along with other minerals. The entity is mainly involved in coal mining in open cast mines. RKTC's scope of work includes coal extraction, overburden removal, crushing, drilling, transportation, etc. The firm has an operational track record of about two decades in the contract mining business and mainly executes contracts for Government/PSU entities. RKTC is promoted by Mr. R.K. Jain, based in Durg, Chhattisgarh.

Key financial indicators

NEPL	FY2021 (Audited)	FY2022 (Audited)
Operating income	233.9	321.6
PAT	15.9	44.1
OPBDIT/OI	36.2%	33.4%
PAT/OI	6.8%	13.7%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	1.1	0.9
Net debt/OPBITDA (times)	-0.5	-1.7
Interest coverage (times)	12.1	13.2

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	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 27, 2023	Nov 30, 2021	Aug 04, 2020	Jun 06, 2019
1	**Non-Fund-Based – Bank Guarantee**	Long Term / Short Term	55.00	-	[ICRA]BBB+ (Stable) / [ICRA]A2+	[ICRA]BBB+ (Stable) / [ICRA]A2+	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB (Stable) / [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Fund-Based – Bank Guarantee	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	Non-Fund- Based – Bank Guarantee	NA	NA	NA	55.00	[ICRA]BBB+ (Stable) / [ICRA]A2+

Source: Company

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

ANALYST CONTACTS

Jayanta Roy
+91 33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22-61693328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33-71501107
ritabrata.ghosh@icraindia.com

Brinda Goradia
+91 22-6169 3341
brinda.goradia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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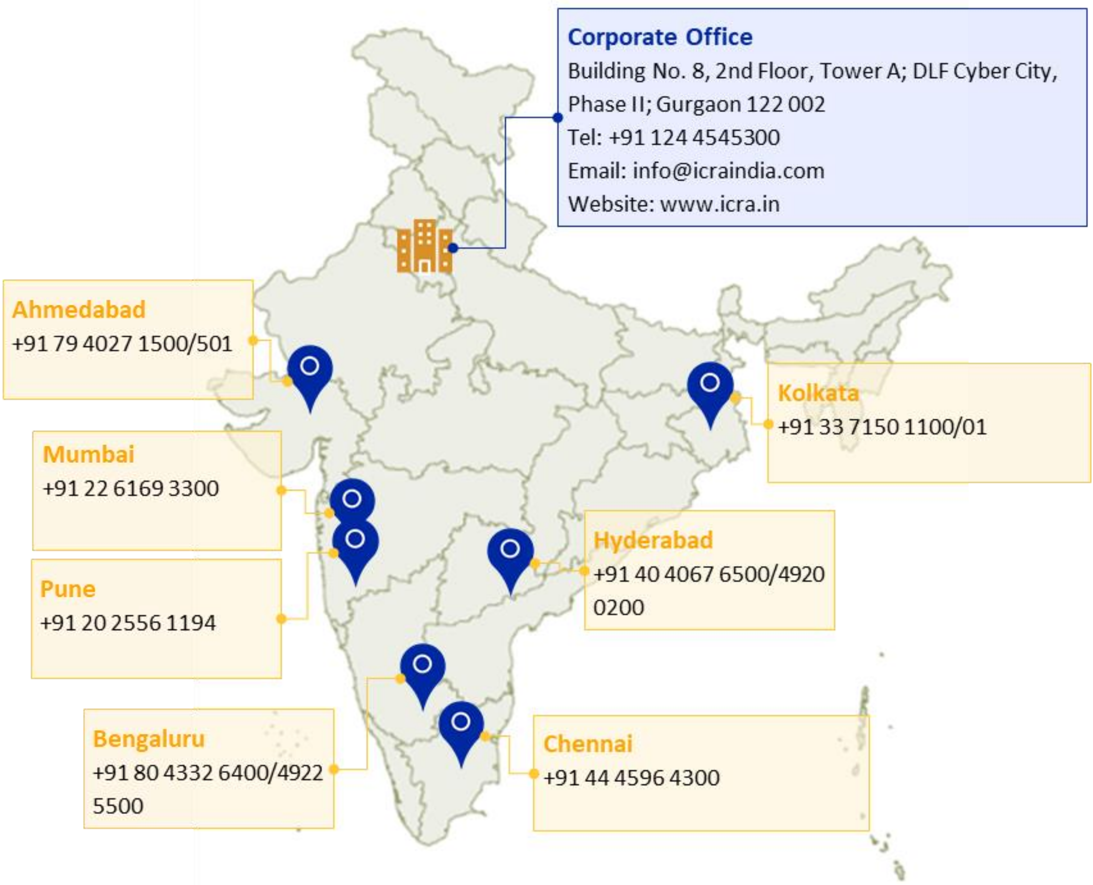
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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