

Rating Advisory

July 13, 2018 | Mumbai

RKEC Projects Limited

Advisory as on July 13, 2018

This rating advisory is provided in relation to the rating of RKEC Projects Limited

The key rating sensitivity factors for the rating include:

- Improvement in operating profitability
- Working capital management
- Extent of capital expenditure (capex) and its funding mix

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from RKEC Projects Ltd (RKEC) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If RKEC continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Company

RKEC was established in 1994 as a sole proprietorship firm named RK Engineers & Contractors, and was reconstituted as a private limited company with the present name in 2005. It undertakes civil construction projects. Based in Visakhapatnam in Andhra Pradesh, RKEC is promoted by Mr Garapati Radhakrishna and his family.

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Rating Rationale

July 14, 2017 | Mumbai

RKEC Projects Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.135 Crore (Enhanced from Rs.39 Crore)
Long Term Rating	CRISIL BB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its ratings on bank facilities of RKEC Projects Limited (RKEC) at 'CRISIL BB+/Stable/CRISIL A4+'.

CRISIL had upgraded its long term rating of RKEC to 'CRISIL BB+/Stable' from 'CRISIL BB/Stable'; while short term rating had been reaffirmed at 'CRISIL A4+' on July 13th, 2017.

The ratings continue to reflect the company's established presence in the civil construction industry supported by its promoters' extensive industry experience and its long-standing relationships with key customers. The ratings also factor in RKEC's moderate order book providing revenue visibility and its above-average financial risk profile because of healthy gearing and debt protection metrics. These strengths are partially offset by moderate scale of operations, large working capital requirements, and exposure to intense competition.

Key Rating Drivers & Detailed Description

Strengths

*** Established presence in the civil construction industry supported by its promoters' extensive industry experience and its long-standing relationships with key customers**

The promoter Mr. Garapati Radhakrishna has experience of more than three decades in the civil construction industry. Over the years, RKEC has continued to focus on works related to jetties and established strong relationships with customers. Furthermore, the company has healthy relationship with raw material suppliers.

*** Moderate order book providing revenue visibility over the medium term**

The company has a moderate unexecuted order book of around Rs.444 as on June, 2017 to be executed over the next 1-2 years providing revenue visibility over the medium term.

*** Above-average financial risk profile**

The financial risk profile is driven by healthy capital structure marked by low gearing, healthy net worth and debt protection metrics. The gearing remained low at 0.01 times with net worth estimated at Rs 49.5 crore as on March 31, 2017. The net cash accruals to total debt (NCATD) and interest coverage stood at 29 times and 3.4 times in fiscal 2017.

Weaknesses

*** Moderate scale of operation:**

Despite being in the business for over four decades, RKEC is a moderate player, with estimated revenue of Rs.205 crore in fiscal 2017. Given its order book of Rs. 444 crore, the company's scale of operations will remain moderate over the medium term.

*** Large working capital management**

RKEC's working capital-intensive operations are indicated by gross current assets (GCAs) of 139 days as on March 31, 2017 backed by high debtor of 75 days and moderate inventory days 48 days as on March, 2017.

*** Exposure to intense competition**

Construction and civil works sector is highly fragmented with the presence of large companies as well as smaller local players. While large players operate in several sectors including roads, hydel projects, thermal plants, and urban infrastructure; smaller players specialise in one or two business segments. RKEC specialises in civil works related to construction of jetties and mainly focuses on moderate value projects.

Outlook: Stable

CRISIL believes RKEC will continue to benefit from the extensive promoters' experience and its long standing relationship with customers and suppliers. The outlook may be revised to 'Positive' if the company diversifies revenue while sustaining profitability margins, maintains capital structure, and manages incremental working capital requirement prudently. The outlook may be revised to 'Negative' if there is significant pressure on revenue and profitability, considerable delays in realisation of receivables, or if the company undertakes larger-than-expected, debt-funded capital expenditure, thereby weakening its financial risk profile, particularly liquidity.

About the Company

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RKEC's estimated profit after tax (PAT) was Rs.11.2 crore on net sales of Rs.205 crore for fiscal 2017, against a PAT of Rs 3.3 crore on net sales of Rs.111.7 crore for fiscal 2016.

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	120	CRISIL A4+
NA	Cash Credit	NA	NA	NA	15	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	15	CRISIL BB+/Stable	13-07-17	CRISIL BB+/Stable		No Rating Change	31-08-15	CRISIL BB/Stable		--	--
Non Fund-based Bank Facilities	LT/ST	120	CRISIL A4+	13-07-17	CRISIL A4+		No Rating Change	31-08-15	CRISIL A4+		--	--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	120	CRISIL A4+	Bank Guarantee	30	CRISIL A4+
Cash Credit	15	CRISIL BB+/Stable	Cash Credit	9	CRISIL BB+/Stable
Total	135	--	Total	39	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

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Last updated: April 2016

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