



Press Release

RKEC Projects Limited

June 24, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	389.51	IVR BBB/Positive (IVR Triple B; with Positive Outlook)	IVR BBB/ Stable (IVR Triple B; with Stable Outlook)	Reaffirmed and Rating Outlook Revised from Stable to Positive	Simple
Long Term Bank Facilities-Proposed	100.00	IVR BBB/Positive (IVR Triple B; with Positive Outlook)	-	Assigned	Simple
Total	489.51	Rupees Four Hundred Eighty Nine Crore and Fifty One Lakhs Only			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has reaffirmed/assigned long term rating to IVR BBB with revision in outlook to Positive from Stable outlook for the bank loan facilities of RKEC Projects Limited (RPL).

The rating continues to draw comfort from the established track record of operations and experienced management, demonstrated track record with proven project execution capability, reputed clientele, healthy order book, improved debt protection metrics and financial risk profile. However, these strengths are partially offset by tender based nature of business, working capital intensive nature of operations and susceptibility of operating margin to volatile input prices.

The 'Positive' outlook indicates improvement in scale of operations and profitability which likely to sustain. IVR believes RPL's will continue to benefit from its operational track record in the business, its reputed clientele and inflow of orders as per the current order book position.

IVR has principally relied on the standalone audited financial results of RPL upto 31 March 2024 (refers to period April 1st, 2023, to March 31, 2024), and projected financials for FY2025, FY2026 and FY2027, and publicly available information/ clarifications provided by the company's management.



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Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 500 crore and EBITDA margins
- Improvement in debt protection metrics
- Sustenance of the overall gearing below.

Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing
- Low orders inflow or delay in execution of projects

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**
The company commenced its operations in 2005 and has a successful track record of around of more than 15 years in the existing line of business. Overall activities of RPL are managed by Garapati Radhakrishna (Chairman cum Director) who has more than three decades of experience in current line of business. He is ably supported by other two directors namely Ms. Garapati Parvathi Devi and Garapati Ram Mohan. These directors are ably supported by qualified and well experienced management team. Over the years they have built strong relationships with customers and suppliers.
- **Demonstrated track record with proven project execution capability:**
RPL has long track record of more than a decade in EPC segment. Over the years of its operation the company has gradually established its credentials and successfully executed many projects. In order to manage the projects in a better way and to grow in a balanced way, the company has a policy to take up short to medium term projects (18-36 months) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its execution capabilities.
- **Reputed clientele:**
The company is dealing with government and private clients namely, Military Engineering Services, Director General Navy Projects, Public Welfare Department, Adani Infra India Limited, Vishakhapatnam Smart City Cooperation and various ports like Haldia Port Trust, Visakhapatnam Port Trust, Jawaharlal Nehru Port Trust, Cochin Port Trust etc. The company has been associated with most of the key clients for a long time, and the successful execution of the projects has also helped it in getting repeat orders. Due to reputed client profiles, the company has low counterparty credit risk although at times, there can be delays in the realization of some bills.



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- **Healthy order book:**

The company has a healthy unexecuted order book position to the tune of about Rs. 915.14 crore which is to be executed within 2-3 years, thereby providing a moderate revenue visibility over medium term.

- **Improved debt protection metrics and financial risk profile:**

In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and the debt service coverage ratio (DSCR) improved to at 3.24x and 2.24x respectively in FY2024 from 2.96x and 1.79x respectively in FY2023. The tangible networth improved to Rs. 168.43 crore in FY2024 from Rs. 148.10 crore in FY2023. The overall gearing stood comfortable at 0.71x in FY2024. The total operating income (TOI) improved by ~13.71% to Rs. 341.09 crore in FY2024 from Rs. 299.97 crore in FY2023.

Key Rating Weaknesses

- **Working capital intensive nature of operations:**

RPL's operations are working capital intensive in nature, supported largely by bank borrowings. The average utilisation of fund based and non-fund based working capital limits of the company stood high around ~81.53% and ~78.31% respectively during the last 12 months ending 31st May 2024.

- **Tender based nature of business:**

The company is mostly getting its orders through tenders floated by various government departments. As the infrastructure industry is highly fragmented due to presence of many organized and unorganized players tender driven nature of business leads to volatility in revenue and profitability. Further, being in infrastructure segment the company is exposed to inherent risks associated in this industry like slowdown in new order inflows, risks of delays in execution etc.

- **Susceptibility of operating margin to volatile input prices:**

The company's operating margins are susceptible to volatility in prices of raw materials, although the same risk has been mitigated to some extent with the presence of price escalation clause.

Analytical Approach: For arriving at the ratings, IVR has analysed RPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

[Rating Methodology for Service Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria for Assigning Rating Outlook](#)

[Policy of Default recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)



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Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 21.43 crore, as on 31 March 2024. Against a current portion of long-term debt (CPLTD) of Rs 4.98 crore in FY2024, the company had a cash accrual of Rs. 29.26 crore in FY2024. The company projected to generate cash accruals of Rs. 34.20 crore in FY2025 against a CPLTD of Rs. 11.29 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

RKEC Projects Limited (RPL), incorporated in April 2005 as private limited company in Vishakhapatnam, Andhra Pradesh. Subsequently was converted to public limited company in November 2016. The company got listed on NSE in October 2017. Prior to this company the promoters were running a sole proprietorship firm under the name of RK Engineers and Contractors since 1985 which was taken over by the private limited company in 2005. It is currently being managed by directors Mr. Garapati Radhakrishna), Ms. Garapati Parvathi Devi and Mr. Garapati Ram Mohan. The company is engaged in civil construction work related to industrial projects, marine projects & bridges projects. The company is “Super Special Class” registered contractors with Ministry of Defence which gives unlimited tendering capability. It is also registered as ‘Special Class - Civil’ contractor for Roads & Bridges department, Government of Andhra Pradesh and ‘Super Class’ civil contractor for Public Works Department (PWD), Government of Odisha.

Financials (Standalone):

(Rs. crore)

For the year ended as on	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	299.97	341.09
EBITDA	42.55	47.25
PAT	12.30	19.87
Total Debt	89.67	120.09
Tangible Networkth	148.10	168.43
EBITDA Margin (%)	14.18	13.85
PAT Margin (%)	4.05	5.76
Overall Gearing Ratio (x)	0.61	0.71
Interest Coverage Ratio (x)	2.96	3.24

Status of non-cooperation with previous CRA: It is under ISSUER NOT COOPERATING category by Brickwork rating via press release dated 30th April 2024 due to non-availability of Information.



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Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Instrument/Facility	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 12 May 2023	Date(s) & Rating(s) assigned in 2022-23 10 Mar 2023	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	99.51	IVR BBB /Positive	IVR BBB /Stable	IVR BBB /Stable	-
2.	Non-Fund Based	Long Term	290.00	IVR BBB /Positive	IVR BBB /Stable	IVR BBB /Stable	-
3.	Fund Based-Proposed	Long Term	25.00	IVR BBB /Positive	IVR BBB /Stable		
4.	Non-Fund Based-Proposed	Long Term	75.00	IVR BBB /Positive	IVR BBB /Stable		

Name and Contact Details of the Rating Analyst:

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit (CC)	-	-	-	85.50	IVR BBB/Positive
Bank Guarantee (BG)*	-	-	-	290.00	IVR BBB/Positive
Term Loan GECL-1	-	-	Dec 2027	13.75	IVR BBB/Positive
Equipment Term Loan-1	-	-	Sep 2024	0.06	IVR BBB/Positive
Equipment Term Loan-2	-	-	Oct 2029	0.20	IVR BBB/Positive
Proposed-CC	-	-	-	25.00	IVR BBB/Positive
Proposed-BG	-	-	-	75.00	IVR BBB/Positive

*BG Tenor is more than 1 year

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-RKECProjects-jun24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at <https://www.infomerics.com>.