



Press Release

RPP Infra Projects Limited

October 14, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long term Bank Facilities	60.02	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	238.00	IVR A3 (IVR A Three)	Assigned
Total	298.02		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the long term & short term facilities of RPP Infra Projects Limited (RPPIPL) derives comfort from its experienced promoters and management team with established track record of operations. The ratings also factor its healthy order book position indicating revenue visibility for short to medium term and its above financial risk, marked by overall gearing of the company stood comfortable at 0.28x, and its satisfactory debt protection indicators interest coverage at 2.43x in FY20 (2.67x in FY19) and DSCR at above 1.08 times in FY20. These rating strengths are partially offset by its fall in revenues in current year, volatility in raw material prices, exposure to intense competition, tender driven nature of business in highly fragmented & competitive construction sector, revenue concentration risk in order book, and high level of pledging of shares limit the access to fund raising.

Key Rating Sensitivities

Upward factors:

- Growth in scale of operations with improvement in profitability, and cash on a sustained basis.
- Managing working capital requirements efficiently with improvement in liquidity position.

Downward factors

- Moderation in scale of operations or profitability impacting the liquidity profile
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x.
- Delay in conversion of warrants of ~Rs.36.00 crore to equity shares capital.



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Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team with established track record of operations:

The promoters of the company are qualified and have extensive experience of over three decades in the civil construction industry. Such a long stint in the industry provides them with a competitive edge in establishing strong relationships with suppliers and customers. The company was formed in 1995 and has sailed smoothly through business cycles. Moreover, RPIPL is managed by qualified professionals having the requisite technical knowledge and skills thereby providing synergistic advantage to the company in terms of successful project execution and commissioning.

Healthy though concentrated order book position:

The company has healthy unexecuted order book position of ~2100 Crore including recent L1 in bid process as on August, 2020, thereby, giving medium to long term revenue visibility. However, the same is concentrated towards geographic concentration as majority of projects executed in the past and the current order book are concentrated in a few states viz Tamil Nadu, Karnataka and Maharashtra, which constitute above 50% of the order book. Going forward, materialization of the already bided contracts and win of new contracts will be crucial for the company.

Comfortable capital structure with healthy debt protection metrics

The overall gearing of the company stood comfortable at 0.28x as on March 31, 2020. The debt protection indicators of the company like interest coverage remains comfortable at 2.43x in FY20 (2.67x in FY19) and DSCR at above 1.08 times in FY20. Total Debt/GCA has improved from 3.13 years in FY19 to 2.27 years in FY20 mainly due to stable GCA and reduced debt levels. Further, total indebtedness of the company as reflected by TOL/ATNW remained comfortable at 1.14x as on March 31, 2020.



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Key Weaknesses

Susceptibility of profitability to volatile input prices

RPPIPL undertakes projects primarily under engineering, procurement and construction basis (EPC) and are active within the field of water/ waste water treatment and Infra projects. So the major inputs required by the company steel, cement etc. However, some of the contracts (70-80% of the total contracts) executed by the company contain escalation clause but the same is not sufficient to guard against volatile input material price. Also, Tender based operations limit pricing flexibility in an intensely competitive industry which in turn adversely impact the profitability.

Tender driven nature of business in highly fragmented & competitive construction sector

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the company's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented marked by presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. RPPIPL faces direct competition from various organized and unorganized players in the market.

Revenue concentration risk in order book

Orders of Rs 2,100crore including recent bids L1 allotments as on August 31, 2020, to be executed in 24-36 months provide strong revenue visibility. The robust order book is because of the company's proven execution capability. Also, Geographic concentration risk is available as majority of projects executed in the past and the current order book are concentrated in a few states viz Tamil Nadu, Karnataka and Maharashtra, which constitute above 50%of the order book. Any political uncertainty or other adverse scenario in these states could adversely affect the construction industry having a direct impact on the



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company's timely execution of projects, project realizations and revenues and margins. Order book is concentrated on infrastructure which makes its performance dependent on the progress in these projects.

High level of promoter share pledge

As on 30 June 2020, promoters hold 52.51% of the shareholding of the company. Presently 62.35% of the promoter shares have been pledged to various banks and NBFCs as collateral security for the borrowings availed. This high level of pledging indicates that access to funding is challenging.

Inherent risk as an EPC contractor

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company in the sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating methodology for Infrastructure Companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity profile of RPIPL is expected to remain adequate marked by its expected satisfactory cash accrual in the range of ~Rs.33-48.80 crore as against debt repayment obligation of ~Rs.12.61 Cr in FY21 and ~Rs.11.33 Cr in FY22. Moreover, the company has satisfactory current ratio at above 1.78 times and Cash Equivalents level of ~Rs. 16 cr as on March 31, 2020. The average working capital utilisation of the company remained high at ~95% during the past 12 months ended Aug, 2020 indicating limited liquidity buffer. However, the company has adequate gearing headroom for additional debt with an overall gearing of 0.28x as on March 31, 2020. Further, the company has no planned capex or availment of long-term debt plan which imparts comfort. Going forward, in case of substantial increase in revenue, enhancement in bank lines remains critical to efficiently manage liquidity.



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About the Company

RPP Infra Projects Limited (RPPIPL) is a construction company established in 1988 as R.P.P Builders and later reconstituted as a limited company in the year 1995. Its registered office is located at Erode, Tamil- Nadu. RPPIPL operates in the Power, Irrigation and Water supply, Industrial structure, Roads and Buildings segments. The company's focus on small government projects as short-medium tenure projects provides adequate revenue visibility.

RPPIPL is listed on BSE and NSE stock exchanges.

Financials (Standalone Basis)

For the year ended / As On	(Rs. crore)	
	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	580.69	575.69
EBITDA	61.97	55.01
PAT	24.35	19.29
Total Debt	105.04	73.08
Tangible Network (Adjusted)	235.66	258.47
EBITDA Margin (%)	10.67	9.56
PAT Margin (%)	4.13	3.30
Overall Gearing Ratio (x)	0.45	0.28

Status of non-cooperation with previous CRA: None

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Bank Facilities	Long Term	60.02	IVR BBB- /Stable Outlook	-	-	-
2.	Non-Fund Based Bank Facilities	Short Term	238.00	IVR A3	-	-	-



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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 www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Ravi Prakash

Tel: (011) 24655636

Email: rprakash@infomerics.com

About Infomerics:

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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
Long Term Bank Facilities- Term Loan	-	-	June, 2021	0.89	IVR BBB-/Stable Outlook
Long Term Bank Facilities-Cash Credit/WCDL	-	-	-	59.13*	IVR BBB-/Stable Outlook
Short Term Bank Facilities – LC/BG	-	-	-	238.00	IVR A3

* It includes WCDL-CESS of Rs.4.63 Crore.