Press Release

Rungta Projects Limited

August 08, 2020

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long term Bank Facilities	43.00 (reduced from 45.50)	IVR BB-; Stable (IVR Double B Minus with Stable outlook)	Reaffirmed
2.	Short term Bank Facilities	12.00 (enhanced from 9.50)	IVR A4 (IVR A Four)	Reaffirmed
	Total	**55.00 (Rs. Fifty Five crore Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Rungta Projects Limited (RPL) continues to derive comfort from its long track record of operation under experienced promoters, reputed clientele, large fleet of heavy equipment and presence of escalation clause in contracts to safeguard its profit margin to an extent. The ratings also consider its comfortable capital structure and healthy operating margin leading to comfortable debt protection metrics. However, these rating strengths continues to remain constrained by tender based nature of business, exposure to intense industry competition, volatility in revenues, capital intensive nature of business, exposure to execution challenges due to regulatory risks associated with mining operations and its elongated operating cycle. Further, Infomerics also notes deviation between its projected performance for FY19 and FY20 with actual performance as per FY19(A) and FY20 (Provisional) results.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Sustenance of the capital structure with TOL/TNW continues to remain below 1.5x on a sustained basis

- Improvement in average collection period leading to improvement in the operating cycle and decline in average fund based working capital limit utilisation with improvement in liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 2x
- Deterioration in working capital management affecting the liquidity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Long track record of operation under experienced promoters**

RPL was promoted by Mr. R S Rungta in the year 1983, having an experience of more than five decades in the said line of business. The day to day operation of the company is now managed by Mr. Sanjay Rungta and Mr. Sunil Rungta (Son of Mr. RS Rungta). There is an on-going proceeding against Mr. R S Rungta for misrepresentations in the applications for allotment of North Dhadu coal block in JIPL (Jharkhand Ispat Pvt Ltd). However, Mr. R S Rungta is now only a shareholder and neither associated with the operations of the company and nor a director.

- **Reputed clientele**

RPL caters to various subsidiaries of Coal India Limited (CIL) which includes CCL, NCL, WCL, ECL, SECL, NECL. Besides, the company is also working with Steel Authority of India (scientific exploitation of mines) and Gujarat Mineral Development Corporation (transportation of lignite from the mines to power plants).

- **Comfortable capital structure and healthy operating margins leading to comfortable debt protection metrics**

RPL's capital structure has improved and remained comfortable marked by long term debt to equity and overall gearing ratio of 0.14x and 0.39x (improved from 0.17x and 0.47x as on March 31, 2019) respectively as on March 31, 2020 (Prov.). The company's operating margins have been healthy over the years and stood at 19.41% (improved from 15.28% in FY19) for FY20 (prov.). This apart, Interest coverage ratio has improved with the lower interest expense and the same was at 2.59x with Total Debt to GCA at 5.33x during FY20.

- **Large fleet of heavy equipment**

By virtue of being in operation for long period, the company has established a large fleet of heavy equipment enabling execution of large sized orders. This apart, RPL has an in-house service & maintenance workshop for the periodic repairs and maintenance of its fleet.

- **Escalation clause in contracts**

The mining contracts mainly comprise income from excavation and evacuation services which are based on per tonne of coal evacuated; overburden removed and run over the period of contract. The major cost for RPL for such services is the diesel cost for plying the equipment, thus exposing the company to volatility in diesel prices. While the diesel costs are pass through in nature, there is generally a time-lag of around a month before the same can be built into the billing cycle. Further, the cost of labour which is another major cost has an escalation clause which is linked to WPI index.

Key Rating Weaknesses

- **Tender based nature of business and exposure to intense industry competition**

The Company is engaged in the mining operations. The contracts of the principles are tender based. It poses a significant risk of uncertainty attached in the awarding of tenders. Further, competition from other contractors is intense due to the tender-based nature of the business, thus constraining the business risk profile.

- **Volatility in revenues**

RPL's revenues have de-grown in FY20 (Prov.) led my moderation in order inflows resulting in a decline in operating scale. This is mainly due to a division in the business, post which RPL is catering mainly to the eastern and central coalfields and the other company, RPL Projects Limited, participates in tender for North, West and central coal fields.

- **Capital intensive nature of business**

The operation of the company is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc) for replacement purpose.

- **Exposed to execution challenges due to regulatory risks associated with mining**

Coal mining related operations remain exposed to regulatory risks, which can lead to potential closure in case of violation of statutory norms. Moreover, the mining belts are prone to law and order problems, which may result in unforeseen delays in project execution. Infomerics notes that while the entire responsibility of getting regulatory clearances lies with the mining leaseholder, it may impact the revenue of RPL if the project gets delayed.

- **Elongated operating cycle**

The operating cycle of the company remained elongated mainly attributable to its long average collection period. Further, the debtors also include retention money deducted from bills raised as per the terms of contract (to be realised at the end of the contract period).

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

RPL has earned a gross cash accrual of Rs.12.33 crore in FY19 and Rs.12.07 crore in FY20 (provisional). Further, the company is expected to earn gross cash accruals in the range of ~Rs.11-14 crore as against its minimal debt repayment obligation during FY21-23. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. However, the liquidity is constrained due to its elongated operating cycle. Further, the average cash credit utilisation of the company remained high at ~93% during the past 12 months ended May, 2020 indicating a low liquidity cushion. The company has availed moratorium from one of its lenders as per the RBI guidelines.

About the Company

Rungta projects Ltd (RPL), incorporated in 1983, initially started its business activities with coal transportation and gradually diversified into coal mining, overburden removal, loading of coal into tippers and wagon loading, transportation of lignite, coal handling and rake management. The promoter Mr. RS Rungta has vast experience in this line of business.

Financials (Standalone): **(Rs. crore)**

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	160.65	95.63
EBITDA	24.54	18.56
PAT	0.60	1.31
Total Debt	77.79	64.36
Tangible Net worth	165.85	167.15
EBITDA Margin (%)	15.28	19.41
PAT Margin (%)	0.37	1.35
Overall Gearing Ratio (x)	0.47	0.39

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: INC from ICRA as per PR dated July 29, 2020 due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. 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	Term Loan	Long Term	3.00	IVR BB-/Stable	IVR BB-/Stable (May 14, 2019)	-	-
2	Cash Credit	Long Term	40.00	IVR BB-/Stable	IVR BB-/Stable (May 14, 2019)	-	-
3	Bank Guarantee	Short Term	12.00	IVR A4	IVR A4 (May 14, 2019)	-	-

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. Sanmoy Lahiri Tel: (033) 46022266 Email: slahiri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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 Fund Based Limits – Term Loan	-	-	Dec 2023	3.00	IVR BB-/Stable
Long Term Fund Based Limits – Cash Credit	-	-	-	40.00	IVR BB-/Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	12.00	IVR A4