Press Release

RPS Infraprojects Pvt Ltd (RIPL)

November 05, 2020

Ratings

Sl. No	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	12.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Assigned
2	Short Term Bank Facilities	172.00	IVR A4+ (IVR A Four Plus)	Assigned
	Total	**184.00 (Rupees One hundred and eighty-four Crores only)**		

Details of Facilities are in Annexure 1.

Detailed Rationale

The ratings assigned to the bank facilities of RPS Infraprojects Pvt Ltd (RIPL) considers the common management team and operational & financial linkages between RIPL and its group concerns, Priti Construction (PC), Shah & Parikh (S&P) &Speco Infrastructure (SI). Infomerics has taken a consolidated view of these entities referred together as RPS group. The ratings takes into account the established track record of operations of these entities under an experienced management, proven project execution capability, reputed clientele and healthy order book giving visibility to revenue in the medium term though exposed to geographical/project concentration risks. The ratings also consider RPS group's stable financial performance albeit erratic trend in revenue & operating profit margin along with comfortable capital structure with satisfactory debt protection metrics. However, these rating strengths are partially offset by susceptibility of profitability to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector, high working capital intensity and nature of constitution of Priti Construction, Shah & Parikh and Speco Infrastructure. The ratings also note blacklisting history of RIPL and PC by Municipal Corporation of Greater Mumbai (MCGM).

Key Rating Sensitivities:

<u>Upward Factor:</u>

- Growth in scale of operations with improvement in profitability leading to improvement in debt protection metrics and liquidity on a sustained basis
- Sustenance of the capital structure with improvement debt protection metrics
- Removal of blacklisting of PC by MCGM

Downward factor:

- Decline in scale of operations with moderation in profitability impacting the liquidity
- Moderation in the capital structure with deterioration in overall gearing to more than 1x and impairment in debt protection metrics
- Deterioration in liquidity position due to high working capital intensity, resulting in heavy utilisation of the existing limits.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management**

The day-to-day operations of the RPS group are managed by the second generation of Shah and Parikh families. The group has established track record of operations in the civil construction business. This has helped in developing good insight about the industry and has developed healthy customers and suppliers' relations.

- **Proven project execution capability**

Over the years, RPS Group has successfully completed many projects across the country for various medium to large government companies. In order to manage the projects in a better way and to grow in a balanced way, the group has a policy to take up short to medium term projects (1-2 years) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele**

RPS group has executed projects for Kalyan Municipal Corporation, Nagpur Municipal Corporation, Thane Municipal Corporation, Maharashtra State Road Development Corporation Limited, Municipal Corporation of Greater Mumbai to name a few. All these departments being a government entity counter-party default risk remains minimal. The

Group has executed various projects such as Bandra-Worli Sea Link Road (under a JV), Airport Road, Metro Junctions to name a few.

- **Healthy order book giving visibility to revenue in the medium term though exposed to geographical/project concentration risks**

The group has a strong order book position comprising 45 contracts aggregating to about Rs.1416.38 Crore as on August 4, 2020 which is about 3.45 times of its FY20 construction revenue (i.e., Rs.410.52 crore). The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility. However, the group has order concentration in the state of Maharashtra.

- **Stable financial performance albeit erratic trend in revenue and operating profit margin**

RPS Group's witnessed an erratic trend in its total operating income over the last three financial years (FY17-FY19). The same deteriorated in FY19 by 24.85% y-o-y to Rs.349.29 crore from Rs.464.76 crore in FY18 driven by lower order inflow and lower execution of orders during the year. However, the group witnessed growth in its scale of operations and reported revenue of Rs.410.52 crore in FY20 (provisional) driven by higher execution of orders. The EBITDA margin of the group also remained erratic during the aforesaid period and witnessed improvement in FY20 (Prov.). The PAT margin of the group witnessed sequential growth over the past three fiscals (FY18-FY20) mainly on account of gradual decline in finance charges. In 5MFY21, the group had reported combined revenue of Rs.111.84 crore.

- **Comfortable capital structure with satisfactory debt protection metrics**

The capital structure of the group remained comfortable over the years marked by its satisfactory leverage ratios. The overall gearing of the group improved from 0.44x as on March 31, 2018 to 0.32x as on March 31, 2020 (Provisional). Total indebtedness of the group as reflected by TOL/TNW also stands comfortable 1.50x as on March 31, 2020 (provisional) [1.53x as on March 31, 2019]. The debt protection indicators of the group like interest coverage declined to 2.50x in FY19 from 3.43x in FY18 due to lower absolute EBITDA in FY19. However, the same improved to 4.19x in FY20 provisional due to lower interest and increase in EBITDA level. Further, Total Debt/GCA deteriorated from 2.87 years in FY18 to 3.24 years in FY19 mainly due to lower cash accruals. The same improved to 2.62x in FY20 provisional with higher accruals.

Key Rating Weaknesses

- **Susceptibility of profitability to volatile input prices**

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability of the group remains susceptible to fluctuation in input prices. However, a presence of escalation clause in most of the contracts provides significant comfort.

- **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 group's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented with 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.

- **High working Capital intensity**

Construction business, by its nature, is working capital intensive. A large amount of its working capital remained blocked as retention money, earnest money deposit and security deposit. The working capital requirement of the firm is mainly funded through credit period availed from its creditors based on its established relationship and bank borrowings. Further, the group has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. The group has a weak working capital management marked by Gross Current Assets (GCA) of 227 days in F20 as compared to 295 days in FY19. The GCA days are high on account of high debtor and inventory days. Debtor days stood at 182 days in FY20 as against 229 days in FY19. Inventory days stood at 45 days in FY20 as against 66 days in FY19.

However, average utilization of fund-based limit of RPS group is low at ~38% for the last 12 months ended June 30, 2020. However, the group utilises almost 100% of its nonfund-based limit.

- **Nature of constitution of Priti Construction, Shah & Parikh and Speco Infrastructure**

Given the nature of constitution as a partnership firm, the entities remain exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners. Further, small scale of operations in Priti Construction also restricts the combined financial risk profile to an extent.

- **Blacklisting by Municipal Corporation of Greater Mumbai**

In May 2018, Municipal Corporation of Greater Mumbai (MCGM) blacklisted RPS InfraprojectsPvt. Ltd (RIPL) for a period of 7 years along with directors, Mr. Nitin Rajmal Shah and Mr. Ketan Rajmal Shah from 30.03.2017. Further, the registration of Priti Construction was also suspended with MCGM. However, though the blacklisting for RIPL has been withdrawn by MCGM, blacklisting for Priti Construction is continued and the matter is under sub-judice.

Analytical Approach: Consolidated. For arriving at the ratings, INFOMERICS analytical team has combined the financials of Priti Construction, RPS Infraprojects Private Limited, Shah& Parikh and Speco Infrastructure commonly referred as RPS Group as these entities have a common management team and operational & financial linkages. The lists of entities considered for consolidation are given in Annexure 2.

<u>Liquidity Position: Adequate</u>

The RPS group on a combined basis has adequate liquidity marked by gross cash accruals of ~Rs.32.06 crore as against repayment obligations of Rs.1.32 crore in FY20. In the absence of any major scheduled term debt repayment in the company, the liquidity position is expected to improve going forward. Further, combined average utilisation of fund based limits remained low at ~ 38% during the past 12 months ended June 2020 indicating a satisfactory liquidity buffer.

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the company

- RIPL was set up in 1966 as a proprietary firm by MrRajmal P Shah, and was reconstituted as a private limited company in 2006. Priti Construction, set up in 1996, is promoted by MsDiwaliben R Shah and Mr Chirag Shah. Shah & Parikh, set up in 1991, is promoted by MrJayantilal Shah, MsHetal N Shah, Mr Anuj Parikh and MsSmita Parikh. Speco Infrastructure, set up in 2005, is owned by MsSejal K Shah and MrRutik Shah. All these entities undertake civil construction projects for government bodies in Maharashtra.These entities are part of RPS group and are managed by Shah and Parikh families.

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

For the year ended* / As On	31-03-2019	31-03-2020
	Combined	Combined
Total Operating Income	349.29	410.52
EBITDA	30.44	42.32
PAT	25.31	30.23
Total Debt	91.28	84.01
Tangible Net worth	226.81	261.08
EBITDA Margin (%)	8.72	10.31
PAT Margin (%)	6.99	7.28
Overall Gearing Ratio (x)	0.40	0.32

**Classification as per Infomerics' standards.*

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

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	146.30	134.81
EBITDA	9.21	11.50
PAT	9.89	8.43
Total Debt	5.28	3.44
Tangible Net worth including quasi equity	170.86	179.29
EBITDA Margin (%)	6.30	8.53
PAT Margin (%)	6.37	6.16
Overall Gearing Ratio (x)	0.03	0.02

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: ACUITE has moved the rating into issuer non cooperating category vide its press release dated December 16, 2019.

Any other information: NA

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)**	**Ratings**	**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.	Cash Credit	Long Term	12.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	-	-	-
2.	Bank Guarantee	Short Term	172.00	IVR A4+ (IVR A Four Plus)	-	-	-

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.

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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.

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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 Fund Based Limits- Cash Credit	-	-	-	12.00	IVR BB+/ Stable
Short Term Bank Facility-Bank Guarantee	-	-	-	172.00	IVR A4+

Annexure 2

Name of the Entity	Consolidation Approach
RPS Infraprojects Pvt Ltd (RIPL)	Full consolidation
Priti Construction (PC)	Full consolidation
Shah & Parikh (S&P)	Full consolidation
Speco Infrastructure (SI)	Full consolidation