RATING RATIONALE **1 September 2020**

RKI BUILDERS PVT. LTD.

Brickwork Ratings revises the rating for the Bank Loan Facilities of ₹ 35.00 Crores (enhanced from Rs. 30.00 crores) of RKI Builders Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Feb 2020)	Present
Fund Based	16.00	21.00	Long Term	BWR BB Stable (Downgraded) Issuer Not Cooperating*	BWR BBB- Stable (Upgraded)
Non Fund Based	14.00	14.00	Short Term	BWR A4 (Downgraded) Issuer Not Cooperating*	BWR A3 (Upgraded)
Total	30.00	35.00	INR Thirty Five Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.
Issuer did not co-operate. Based on the best available information.
Details of bank facilities in Annexure-I

RATING ACTION/OUTLOOK :

BWR has revised and upgraded the ratings of RKI Builders Pvt Ltd ("RBPL" or "The Company") bank loan facilities to BWR BBB-/A3 (Stable), based on the extensive business experience of the promoters, Y-o-Y growth in the revenue of the company and moderate profitability margins, moderate financial risk profile of the company marked by improved net worth and healthy order book of the company providing medium term revenue visibility. However, the rating is constrained on account of the tender based operations of the company and the inherent industry risk, declining debt service indicators, and the elongated working capital cycle.

BWR believes that RBPL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

BWR has essentially relied upon the audited financial statements of RBPL up to FY 19, Management Certified Provisional financials for FY20, projected financials for FY21 and FY22, publicly available information and information/clarifications provided by the company's management.

KEY RATING DRIVERS

Credit Strengths:

- **Qualified and Experienced promoters**: The promoters are qualified and experienced and have demonstrated execution capabilities over the years in this sector. Mr. Rajendra Prasad has an experience of more than two decades in the industry.
- **Y-O-Y growth in the scale of operations & moderate profit margins**: The scale of the operations in the company has significantly improved to Rs 147.98 crs in FY19 from Rs 117.95 in FY18. The profit margins of the company further improved over FY19 levels. The OPM and NPM stood at 10.41% and 3.82% during FY20 and 8.86% and 3.40% in FY19.
- **Moderate Financial Risk Profile:** The financial risk profile of the company is moderate driven by a net worth of Rs 37.55crs in FY20 improving from Rs. 32.58 crs in FY19, due to the profit retention in the company. The overall gearing stood at 1.22x during FY20 against 1.43x duirng FY19. The TOL/TNW stood at 2.75x during FY20 and 2.38x during FY19. In the absence of any debt funded capex, the capital structure is estimated to stay at a moderate level going forward.
- **Order book:** The company has an unexecuted order book of Rs. 877 crores as on date, proposed to be executed over the next three years. The comfortable order book position reflects the medium term revenue visibility. In addition to this, the company is constantly bidding for new projects which will be further added to the existing order book of the company.

Credit risks:

- **Tender Based Operations and Industry related risks:** The operations are tender based which exhibit an inherent risk of uncertainty of revenue due to non availability of information from competitors & also carries potential risk in timely implementation of various contracts. However, the risk is mitigated to an extent as the management has been in the business for around two decades and has moderate order book position. Also, the business remains exposed to fluctuations in profit due to the volatile nature of cost of inputs like cement, iron. Any adverse fluctuation may impact the profitability of the business. The construction industry remains exposed to the inherent risks like slodown in order inflows and timely execution. Furthermore, the company faces competition from other established as well as small and unorganised players in the market.

- **Declining Debt Protection Metrics:** The DSCR and ISCR of the company has declined during FY20 over the FY19 levels. However, in case of any shortfall, the promoters are in a position to infuse the required funds. The DSCR and ISCR stood at 1.73x and 2.54x for FY19 and 1.12x and 2.40x as on FY20 (Prov).
- **Elongated working capital cycle:** The working capital cycle of the company is elongated due to the high receivable and inventory days. The receivable days are high as the company caters to the 100% government projects, and there is at times delay in realisations.The company is utilising 100% of its available credit limits, leaving no cushion in case of any contingency. However, the promoters of the company are in a position to infuse funds in case of any requirement.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The ability of the company to scale up its operations while maintaining a comfortable risk profile, successful bidding of the tenders and receiving the new contracts along with their timely execution, achieving its projections and maintaining adequate liquidity and profitability would be its key rating sensitivities.
Positive: The rating may be upgraded in case the revenue, profitability, capital structure of the company show significant improvement.
Negative: The rating may be downgraded in case there is significant deterioration in the business revenue, profitability, liquidity or the financial risk profile of the company.

LIQUIDITY POSITION

Adequate:
The liquidity profile of the company is adequately marked by a moderate current ratio, which stood at 1.57x during FY20. (Prov) and 1.50x during FY19 (A). The Cash and Cash equivalents amounted to Rs 0.23crs as in March 20. The Net Cash Accruals stood at Rs 8.59 crs against the

repayment obligation of Rs 8.41crs. Although the CC limits are fully utilised, the USL from the promoters and the promoters ability to infuse funds in case of any contingency would support the liquidity profile.

COMPANY PROFILE

RKI Builders Pvt Ltd is a Hyderabad based construction company established in the year 2003. The company is an integrated infrastructure and construction company primarily focusing on civil contracts for state government and other government led organisations. It is a registered Class 1 Civil Contractor with the governments of Andhra Pradesh and Telangana. The company has executed projects in Telangana, Andhra Pradesh, Gujarat, Rajasthan and Karnataka. The company undertakes the Irrigation Projects and government building construction projects. It is promoted by Shri Rajendra Prasad , who has over two decades of experience in the industry. The company is planning to enter into the Safe Water Distribution projects as well.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	2019	2018
Result Type		**Audited**	**Audited**
Total Operating Revenue	₹ Cr	147.99	117.95
EBITDA	₹ Cr	13.12	8.50
PAT	₹ Cr	5.03	3.88
Tangible Net worth	₹ Cr	32.58	27.55
Total Debt/Tangible Net worth	Times	1.43	0.95
Current Ratio	Times	1.50	1.44

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:

India Ratings & Research has downgraded the rating of the company under the Issuer Not Co-operating category vide press release dated 10th July 2020 on account of the failure to provide the information for the rating exercise.
CARE Ratings has reaffirmed the rating of the company under Issuer Not Co-operating category vide press release dated 04th September 2019 on account of non-submission of information for monitoring of the rating.

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument /Facility	**Current Rating**			**Rating History**		
	Tenure	Amount (₹ Crs)	Rating	Feb 2020	2019	Sept 2018
Fund Based Secured OD	Long Term	21.00	BWR BBB- Stable (Upgraded)	BWR BB (Stable) Issuer Not Cooperating* Downgraded	-	BWR BBB- (Stable)
Non Fund Based Bank Guarantee	Short Term	14.00	BWR A3 (Upgraded)	BWR A4 Issuer Not Cooperating* Downgraded	-	BWR A3
Total		**35.00**	**INR Thirty Five Crores Only**			

Note: The Rating was moved to Rating Not Reviewed in September 2019.
*Issuer did not co-operate. Based on the best available information.

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**

For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor and Media Relations
Srishti Kaushik **Ratings Analyst** **B :+91 202267456 Ext :673** srishti.k@brickworkratings.com **Sushil Kumar Chitkara** Associate Director - Ratings B :+91 22 2831 1426, +91 22 2831 1439 sushilkumar.c@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

RKI Builders Pvt Ltd
Annexure I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	**Canara Bank (Erstwhile Syndicate Bank)**	Secured Overdraft	21.00	-	21.00
2		Bank Guarantee	-	14.00	14.00
	Total	**INR Thirty Five Crores Only**			**35.00**

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non-convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.