

RATING RATIONALE

08Nov2021



Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.300.00 Crs of RKEC Projects Ltd

Particulars

| Facilities** | Amount (Rs.Crs.) | | Tenure | Rating# | |
|--------------------|------------------|---------------|--|--|--|
| | Previous | Present | | Previous (15 Sep 2020) | Present |
| Fund Based | 90.00 | 63.00 | Long Term | BWR BBB/Stable Reaffirmation | BWR BBB /Stable Reaffirmation |
| Non Fund Based | 210.00 | 237.00 | Short Term | BWR A2 | BWR A2 |
| | (50.00) | (50.00) | | Upgrade | Reaffirmation |
| Grand Total | 300.00 | 300.00 | (Rupees Three Hundred Zero Crores Only) | | |

#Please refer to BWR website www.brickworkratings.com for definition of the ratings

**Details of Bank Loan facilities, consolidation or instruments are provided in Annexure

Note: Besides the above mentioned facilities, the company has equipment/working capital loans of ~Rs.40 Crs (as on 30 Sep 2021) with various banks/NBFCs, which are not rated by BWR.

RATING ACTION / OUTLOOK

The ratings of RKEC Projects Limited (RKEC or the company) continues to reflect the extensive experience of the promoters of the company in the Engineering, Procurement and Construction (EPC) industry, established operational track record and demonstrated execution capabilities, long standing relationships with reputed clientele with low counter party risks and promoters' resourcefulness to support business operations. The reaffirmation also factors the medium-term revenue visibility through an adequate order book position and the above average financial risk profile of the company. However, the ratings remain constrained by the moderate scale of operations, geographical, segmental and customer concentration risks in the unexecuted orderbook and the project execution risk. The ratings also continue to factor the uncertainty inherent in the tender-based contract execution business, the vulnerability of profitability to margin-based competitive bidding and fluctuation in construction material prices and the working-capital-intensive nature of business operations.

Brickwork Ratings (BWR) notes the impact of Covid-19 on business operations and financial risk profile, resulting in a subdued FY21 and the recovery thereafter. BWR also notes that the company had availed benefits under the moratorium benefit under the RBI's Covid-19 relief package. The company has not applied for the RBI's Covid-related one-time restructuring scheme.

BWR also takes note of the revalidation of RKEC's work contract from Purvanchal Vidyut Vitaran Nigam Limited, which was terminated in 2018. Thereafter the project has been successfully completed followed by realization of the dues to the

tune of Rs.59.21 Crs and the balance Rs.21.43 Crs is also under process for realization. BWR also notes that the company has successfully completed all the investigations, reviews and revalidations and proactively concluded the issues related to an unfortunate accident which occurred in a project site at Farakka Bridge in West Bengal during February 2020. The company's efforts facilitated a smooth takeoff of the project by October 2021.

BWR believes RKEC's business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in the scale of operations, along with improved margins, a further improvement in the capital structure, an improved segment/ geography/ client-wise diversification and the timely realisation of receivables results in an improved working capital management. The outlook may be revised to Negative in case of any further slowdown of business operations and/or any time and cost overruns, due to subsequent waves of Covid-19. Further, any deterioration in the capital structure due to debt-financed capital expenditure and/or delay or non realisation of receivables resulting in high utilisation of working capital funding, thus weakening the company's financial risk profile may exert a downward pressure on the ratings.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced management and established track record :**

RKEC, with an established operational track record of over fifteen years, is specialized in the business of civil and defence construction such as construction of buildings, highways, marine works and bridges. The main promoters of RKEC, a closely held family business, have over three decades of experience in the EPC business. RKEC is ranked amongst the top five companies for designing and executing marine works in the country. The company has demonstrated its project execution capability in the sector and has been able to win repeat orders from various government agencies based on its track record.

- **Established clientele and adequate order book :**

RKEC has diverse and reputed clientele including Military Engineering Services, Director General Navy Projects, Defence Research Development Organisation; National Highways Authority of India, Indian Railways, Rashtriya Ispat Nigam Limited, etc., and various ports like Jawaharlal Nehru Port Trust [JNPT], Cochin Port Trust [CoPT], Mumbai Port Trust [MbPT], Adani Port and Special Economic Zone Limited, Vedanta Limited, Public Works Department, Government of Odisha, R&B Department, Government of Andhra Pradesh. The company has been associated with these 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 realisation of some bills. Current orderbook size of the company is Rs.1474.07 Crs, of which the unexecuted portion was Rs.866.83 Crs as on 30 Sep 2021 to be executed in the next 2-3 years. This ensures medium term revenue visibility. During H1FY22, the company booked orders worth ~Rs.294 Crs, of which work contracts for ~Rs.160 Crs are awaited.

- **Above average financial risk profile :**

The financial risk profile is considered above average marked by modest scale of operations and adequate profitability, gearing and debt protection metrics. Operating revenue for FY21 was Rs. 202.31 Crs against Rs.297.93 Crs in FY20. EBITDA and PAT were Rs.34.54 Crs and Rs.12.76 Crs respectively during FY21 as against Rs.71.56 Crs and Rs.30.27 Crs respectively in FY20. Operating and net profit margins were 17.07% and 6.31% respectively during FY21. TNW has grown to Rs.132.85 Crs (PY: Rs.120.07 Crs) and debt has increased to Rs.110.51 Crs (PY: Rs.69.57 Crs) as on 31 Mar 2021. Despite the increase in debt level on a y-o-y basis, D/E ratio continues to be comfortable at 0.83 times and TOL/TNW at 1.59 times as on 31 Mar 2021. Debt protection metrics remained adequate with ISCR and DSCR of 2.09 times and 1.69 times respectively for FY21. Current ratio continues to be adequate as marked by 1.38 times as on 31 Mar 2021. RKEC achieved operating revenue of Rs.35.23 Crs in Q1FY22.

Credit Risks:

- **Geographical, segmental and customer concentration :**

Around 53% of the unexecuted orders are in West Bengal and ~45% is from marine construction segment. This exposes the company to geographical & segmental concentration risks. Top 5 projects under execution comprise ~90% of the unexecuted order book, as on 30 Sep 2021 causing significant customer concentration risk. However, the associated risks are mitigated by the low counterparty risk of its clientele such as Military Engineering Services, Director General Navy Projects amongst others.

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

The company's operations are working-capital-intensive in line with general industry trend mainly due to the high cost of construction material, high labour cost, advance to suppliers and delays in getting payments from government departments, among others. The days receivables increased to 249 days (PY: 116 days) as on 31 Mar 2021, due to the pandemic situation. On the other hand, the days payables increased to 381 days (PY: 224 days), thereby keeping the the working capital cycle at 33 days as on 31 March 2021. The company has sufficient financial flexibility to enhance the working capital limits, if required.

- **Execution risk and susceptibility to industry competition and volatility in raw material prices :**

The company's operations are susceptible to many external factors such as timely clearances from various regulatory bodies, the handover of sites, the mobilisation of funds, the change in governments policies and directives, cost escalation due to departmental delays, labour unrest and climatic vagaries. The effect of any of these could be substantial on the company's timeline of the completion of projects, working capital utilisation level and overall profitability. Since all of the operations are tender-based, revenue and profitability are expected to remain susceptible to risks inherent in tender-based operations and a competitive landscape. The company has limited control over the prices of raw materials such as cement and steel used by it during the project execution. The current contracts of the company are a mix of fixed price and those with price escalation provisions. In the case of the fixed-price contracts, the company has to bear the cost escalation of raw materials, which affects its profitability. Impact of any fresh wave of the Covid-19, if any, on the supply chain of the company shall be a key monitorable.

ANALYTICAL APPROACH - Standalone

The Company has entered into Joint Venture with M/s Suryadevara Engineers & Contractors, Vijayawada, M/s Qingdao Construction Engineering Group Co. Ltd, M/s Rapid Net Sports System and M/s N.G. BHOIR & M/s Samudra Dredging Private Limited. The consolidated financials of RKEC comprise revenues of RKEC and the four Joint Ventures. While assigning the ratings, BWR has adopted a standalone approach as the contract receipts are almost fully reflected in the standalone financials only.

RATING SENSITIVITIES

Ability of the company to increase its scale of operations with healthy growth in order book position, improve profitability and execute the orders in hand without delay and manage its receivables position to ensure adequate liquidity would be the key rating sensitivities.

Positive:

- Significant improvement in the scale of operations and profitability on a sustained basis with the timely completion and delivery of projects
- Geographical, sectoral and client-wise diversification of operations

Negative

- Delays in the execution of ongoing orders, a reduction in fresh order inflows or a stretch in the receivables cycle of

the company

- Deterioration in financial risk profile on account of stretch in working capital cycle or any large, debt-funded capital expenditure
- Material impact on the financial risk profile due to any crystallization of contingent liabilities or non realization of receivables

LIQUIDITY INDICATORS - Adequate

The liquidity position has been considered as adequate on account of adequate net cash accruals to meet long term debt obligations. RKEC's utilization of fund based working capital facilities of Rs.50 Crs is above 90% and the utilisation of non-fund based facilities is ~75-80%. The undrawn lines provide liquidity cushion for exigencies. EBITDA for FY21 (~Rs.35 Crs) adequately covers the interest and finance charges for the previous 2 years. Current ratio was 1.38 times and cash & cash equivalents were Rs.1.64 Cr as on 30 Sep 2021. Company maintains term deposits of ~Rs.37 Crs as margin money with various banks apart from balances in current account. Cash conversion cycle was 33 days as on 31 Mar 2021 due to high days payables and low days inventory. Projected cash accruals of ~Rs.41 Crs and ~Rs.51 Crs respectively for FY22 and FY23 are sufficient to meet long-term debt repayments of ~Rs.13 Crs and ~Rs.10 Crs respectively for the same period. The proposed enhancement in the working capital facilities is expected to ease the liquidity position going forward.

ABOUT THE ENTITY

RKEC Projects Limited, an NSE listed company, was incorporated in April 2005 as a private limited company, at Visakhapatnam, Andhra Pradesh. Subsequently, in 2016, the company was converted into a public limited company and listed on NSE in 2017. RKEC is an enlisted contractor with the Ministry of Defence as 'Super Special Class' civil contractor for Military Engineering Services [MES], 'S-02' contractor for Director General Navy Projects [DGNP] to undertake Civil engineering works, Electrical engineering works and Miscellaneous contracts, 'Civil category CIV-IV class' for Defence Research Development Organisation [DRDO]. It is also registered as 'Special Class - Civil' contractor for R&B Department, Government of Andhra Pradesh and 'Super Class' civil contractor for Public Works Department, Government of Odisha.

Shri G Radhakrishna is the Chairman & Managing Director. Smt G Parvathi Devi, Shri G Venkata Ram Mohan, Dr G Sita Ratnam, Vice Admiral Satish Soni [Retd.], Shri T. Lucas Peter, Brig. J K Rao and Lt Gen P R Kumar (Retd.) are the other directors.

KEY FINANCIAL INDICATORS (Standalone)

| Key Parameters | Units | FY 20-21 (Audited) | FY 19-20 (Audited) |
|-------------------------------|---------|-----------------------|-----------------------|
| Operating Revenue | Rs.Crs. | 202.31 | 297.93 |
| EBITDA | Rs.Crs. | 34.54 | 71.56 |
| PAT | Rs.Crs. | 12.76 | 30.27 |
| Tangible Net Worth | Rs.Crs. | 132.85 | 120.07 |
| Total Debt/Tangible Net Worth | Times | 0.83 | 0.58 |
| Current Ratio | Times | 1.38 | 1.34 |

KEY FINANCIAL INDICATORS (Consolidated)

| Key Parameters | Units | FY 20-21 (Audited) | FY 19-20 (Audited) |
|-------------------------------|---------|-----------------------|-----------------------|
| Operating Revenue | Rs.Crs. | 207.87 | 303.98 |
| EBITDA | Rs.Crs. | 34.54 | 69.57 |
| PAT | Rs.Crs. | 12.76 | 28.65 |
| Tangible Net Worth | Rs.Crs. | 129.52 | 116.74 |
| Total Debt/Tangible Net Worth | Times | 0.85 | 0.60 |
| Current Ratio | Times | 1.33 | 1.31 |

KEY COVENANTS OF THE FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY

N.A.

ANY OTHER INFORMATION

Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

| Facilities | | Current Rating (2021) | | 2021 (History) | | 2020 | | 2019 | | 2018 | |
|----------------|--------|-----------------------|--------------------------------------|----------------|--------|-----------|-------------------------------------|-----------|-------------------------------------|-----------|---------------------------------------|
| Type | Tenure | Amount (Rs.Crs.) | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Fund Based | LT | 63.00 | BWR BBB/Stable (Reaffirmation) | NA | NA | 15Sep2020 | BWR BBBStable (Reaffirmation) | 07Nov2019 | BWR BBBStable (Reaffirmation) | 20Feb2018 | BWR BBB- Stable (Assignment) |
| | | NA | NA | NA | NA | NA | NA | NA | NA | 03Sep2018 | BWR BBBStable (Upgrade) |
| Non Fund Based | ST | 237.00 | BWR A2 (Reaffirmation) | NA | NA | 15Sep2020 | BWR A2 (Upgrade) | 07Nov2019 | BWR A3+ (Reaffirmation) | 20Feb2018 | BWR A3 (Assignment) |
| | | NA | NA | NA | NA | NA | NA | NA | NA | 03Sep2018 | BWR A3+ (Upgrade) |
| NFB SubLimit | ST | (50.00) | BWR A2 (Reaffirmation) | NA | NA | 15Sep2020 | BWR A2 (Upgrade) | NA | NA | NA | NA |

| Facilities | Current Rating (2021) | 2021 (History) | 2020 | 2019 | 2018 |
|--------------------|-----------------------|--|------|------|------|
| Grand Total | 300.00 | (Rupees Three Hundred Zero Crores Only) | | | |

Rating Advisory, as on 17Sep2021

Rating Advisory was issued citing the delay occurred in conducting the rating review.

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf). Investors queries can be sent to info@brickworkratings.com.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Engineering Procurement and Construction \(EPC\) Companies](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

Analytical Contacts

Naveen S

Manager - Ratings

Board : +91 80 4040 9940

naveen.s@brickworkratings.com

Saakshi Kanwar

Senior Manager Ratings

saakshi.k@brickworkratings.com

1-860-425-2742 | media@brickworkratings.com

RKEC Projects Ltd

ANNEXURE-I

Details of Bank Facilities rated by BWR

| SL.No. | Name of the Bank/Lender | Type Of Facilities | Long Term(Rs.Crs.) | Short Term(Rs.Crs.) | Total(Rs.Crs.) |
|--------|-------------------------|---|--------------------|---------------------|----------------|
| 1 | Bandhan Bank | Cash Credit-Sanctioned | 13.00 | – | 13.00 |
| 2 | Bandhan Bank | Bank Guarantee-Sanctioned | – | 7.00 | 7.00 |
| 3 | Bank of Baroda | CECL-Sanctioned | – | – | 0.00 |
| 4 | Bank of Baroda | Bank Guarantee-Sanctioned Sub-Limit (Letter of Credit (ILC/FLC)) -Sanctioned | – | 210.00 (50.00) | 210.00 |
| 5 | Bank of Baroda | Bank Guarantee-Proposed | – | 20.00 | 20.00 |
| 6 | Bank of Baroda | Cash Credit-Sanctioned | 37.50 | – | 37.50 |
| 7 | Bank of Baroda | Cash Credit-Proposed | 12.50 | – | 12.50 |

| SL.No. | Name of the Bank/Lender | Type Of Facilities | Long Term(Rs.Crs.) | Short Term(Rs.Crs.) | Total(Rs.Crs.) |
|--|-------------------------|--------------------|--------------------|---------------------|----------------|
| Total | | | 63.00 | 237.00 | 300.00 |
| TOTAL (Rupees Three Hundred Zero Crores Only) | | | | | |

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, Securitization Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutionsâ€™ 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 partner. 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.

Disclaimer

Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, 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, Securitization Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgment are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgment obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "**BWR Party**") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such

damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.