

Rating Rationale

February 10, 2023 | Mumbai

R.S. Infraprojects Private Limited 'CRISIL A/Stable/CRISIL A1' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.100 Crore
Long Term Rating	CRISIL A/Stable (Assigned)
Short Term Rating	CRISIL A1 (Assigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A/Stable/CRISIL A1**' ratings to the bank facilities of R.S. Infraprojects Private Limited (RSIPL).

The ratings reflect the established market position of RSIPL in the domestic tower industry resulting in the steady improvement in its business risk profile, indicated by sustained increase in revenue over the years. Further, revenue is expected to expand by around 30-40% in fiscal 2023 (on-year basis), driven by both volume growth and improved realisation, marking a compound annual growth rate of 16% over the three fiscals through 2023. With steady growth in demand from power transmission and telecom sector, RSIPL booked revenue of Rs 879 crore during April-December 2022 and is expected to report Rs 1300 crore for fiscal 2023. Though operating margin moderated during fiscal 2022 and in the first half of this fiscal due to high commodity prices, it is expected to stabilize in the second due to moderation in raw material (i.e., steel) prices and higher execution of projects leading to better economies of scale. Overall, operating margin shall remain at 9-10% in fiscal 2023 and thereafter, driven by established market position of RSIPL enabling pass through of commodity price increase to end consumers and expected economies of scale amidst steady business growth; operating profitability is estimated at 8.5% during April-September'22.

The ratings also factor in the company's robust financial risk profile, aided by sizeable network and low reliance on external debt. The company is planning for capital expenditure (capex) to expand its capacity in power transmission considering the growth in demand, however it remains debt adverse, and accordingly borrowings are likely to remain low. Therefore, despite capital expansion plans, financial risk profile is expected to remain comfortable over the medium term. Liquidity, on the other hand, also remains supported by sizeable net cash accrual against maturing debt and cushion in bank lines.

The ratings reflect the extensive experience of the promoters of RSIPL in the power and transmission tower segment, well established customer base from diverse end use industries and healthy financial profile. These strengths are partially offset by operating profitability susceptible to volatility in raw materials prices and large working capital requirement.

Analytical Approach:

Unsecured loans, estimated at 25.86 crore as of Mar 31, 2023 (Rs. 25.86 crore as of Mar 31, 2022) are treated as neither debt nor equity as these have been maintained in the business over the years. Though it bears interest, the said interest is retained in the business to aid business requirement.

Key Rating Drivers & Detailed Description

Strengths:

Established market position: The promoters have four decades of experience in the power and transmission sector; the company started with tower manufacturing but gradually entered the engineering, procurement, and construction (EPC) sphere. It now undertakes projects on tender basis as an EPC contractor and the same is evident in outstanding orders of Rs 2300 crore as of December 2022. The promoters' industry experience and established market position with timely execution of projects allotted by central and state government agencies such as Bihar Grid Company Ltd. (BGCL), Haryana Vidyut Prasaran Nigam Ltd (HVPNL); Uttar Pradesh Power Transmission Corporation Ltd (UPPTCL); Madhya Pradesh Power Transmission Corporation Ltd (MPPTCL) and established private players such as Reliance Jio, Indus Towers, Bharti Infratel, aids the business risk profile. The successful execution of orders across locations has helped the company clock a compound annual growth rate (CAGR) of 16% in revenue during the three fiscals through 2023. Besides, order book of more than two times the topline of fiscal 2022, to be executed over the next two years provides revenue visibility. CRISIL Ratings believes that regular new customer addition, and capacity expansion will further enhance the market position and the business risk profile of the company.

Well-established and diverse customer base: RSIPL has long-standing relationships with its customers and suppliers. It caters to a diversified end-user industry base, which includes telecommunication, power transmission, railway

electrifications and solar etc. Its clientele includes leading industry names, some of the well-established players such as Reliance Jio, Indus Towers, Bharti Infratel, Bihar Grid Company Ltd (BGCL), Haryana Vidyut Prasaran Nigam Ltd (HVPNL), U.P. Power Transmission Corp Ltd (UPPTCL), etc. A diversified end-user industry base helps the company mitigate the risk of slowdown in a particular industry and achieving higher growth.

Healthy financial risk profile: Networth has improved significantly over the past 2-3 years to Rs 283 crore as on March 31, 2022, and is expected to further augment to around Rs 340-350 crore as on March 31, 2023, backed by steady accretion to reserve. Debt protection metrics are also expected to remain comfortable due to steady rise in operating profitability. Interest coverage and net cash accrual to adjusted debt ratios are expected at 4-5 times and 0.5-0.7 time, respectively, during fiscal 2023. Despite undertaking debt-funded capex in fiscals 2023 and 2024, overall financial risk profile should remain comfortable backed by expected accretion to reserve and stable operating profitability.

Weaknesses:

Operating profitability susceptible to volatility in raw materials prices: Operations are susceptible to risks associated with high variation in raw material prices i.e., steel. Though price escalation is available, the same varies from contract to contract and comes with a lag, hence impacting the operating efficiency. Further, industry has a few large players and many unorganized players with small capacities, catering to regional demand, which exposes the company to intense competition and limits its pricing flexibility. This along with increased competitiveness in the industry led to decline in operating margin during fiscal 2022 and fiscal 2023 (April-Sep) as against previous fiscals; operating margin was estimated at 8.5% each during fiscal 2022 and April-Dec in fiscal 2023 (10-12% during fiscal 2019-21). Resultantly, return on capital employed (ROCE) also moderated to 21.6% in fiscal 2022 from 41.17% in fiscal 2020 and shall remain at around 25-26% in fiscal 2023. However, with high margin tender in place currently, expected industry revival and better economies of scale, margins are expected to improve to 10-11% from fiscal 2024. Going forward, sustained increase in operating profitability with stable revenue will remain a key monitorable.

Working capital intensive operations: Operations are working capital intensive on account of the inherent nature of the EPC business and long project execution cycle of 2-3 years, which has resulted in high reliance on short-term debt. Receivables are high in this business due to retention money being blocked in projects till the end of the performance guarantee period as well as milestone billing in EPC projects. As on March 31, 2022, receivables and payables were high over 138 and 201 days, respectively. This, along with delay in payment realisation from UP government authorities lead to high reliance on bank lines, with limit utilization escalating to over 90-95% in certain months during the past 12 months through Dec-22. Though company plans to smoothen the billing cycle to reduce working capital requirement, its sustained improvement amid business growth will remain a key rating sensitivity factor.

Liquidity: Strong

Expected cash accrual of Rs 65-70 crore should comfortably cover term debt obligation of Rs 6-8 crore over the medium term and support liquidity. Bank limit utilisation averaged a moderate 78% over the 12 months through December 2022, however, it got highly utilized to over 90-95% in certain months amid increased working capital requirements. Current ratio was healthy at 1.48 times on March 31, 2022 and shall remain at similar levels over the medium term too. The promoters are likely to extend need-based funding support in the form of unsecured loans and reduced take-away of remuneration & interest on unsecured loans to meet its working capital requirements and repayment obligations. Low gearing and moderate networth support financial flexibility.

Outlook: Stable

CRISIL Ratings believes RSIPL will benefit from the extensive experience of its promoters, and established relationships with clients.

Rating Sensitivity factors

Upward factors

- Sustained improvement in scale of operations driven by volumetric growth and operating margin of 12-13% leading to more than expected net cash accruals
- Diversified order book position with low dependence on any single counterparty or territory
- Prudent working capital management leading to sustained improvement in financial risk profile

Downward factors

- Decline in scale of operations or operating margin to below 8% leading to lower-than-expected net cash accruals.
- Large debt-funded capex or substantial increase in working capital requirements weakening the financial risk and liquidity.

About the Company

RSIPL was originally set up in 1972 as a partnership firm, RS Steel Works; the firm was reconstituted as a private limited company in April 2006. The company is engaged in EPC activities in the power transmission and telecommunication sectors and provides designs, fabricates, galvanizes, and installs telecom towers, high-voltage transmission-line towers, and structures for extra-high-voltage substations. The plant is based in Noida with a combined annual capacity of 100000 tons and currently Mr. Sanjeev Goel and his brother Mr Manoj Goel manage the operations.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	942.72	831.39
Reported profit after tax (PAT)	Rs crore	36.63	54.01
PAT margin	%	3.89	6.50
Adjusted debt/Adjusted networkth	Times	0.37	0.35
Interest coverage	Times	2.73	3.73

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	22	NA	CRISIL A1
NA	Bank Guarantee	NA	NA	NA	20	NA	CRISIL A1
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL A/Stable
NA	Cash Credit	NA	NA	NA	40	NA	CRISIL A/Stable
NA	Letter of Credit	NA	NA	NA	8	NA	CRISIL A1

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL A/Stable		--		--		--		--	Withdrawn (Issuer Not Cooperating)*
Non-Fund Based Facilities	ST	50.0	CRISIL A1		--		--		--		--	Withdrawn (Issuer Not Cooperating)*

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	22	Axis Bank Limited	CRISIL A1
Bank Guarantee	20	Bank of Baroda	CRISIL A1
Cash Credit	10	Axis Bank Limited	CRISIL A/Stable
Cash Credit	40	Bank of Baroda	CRISIL A/Stable
Letter of Credit	8	Axis Bank Limited	CRISIL A1

This Annexure has been updated on 10-Feb-2023 in line with the lender-wise facility details as on 10-Feb-2023 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Approach for Rating SRs
CRISILs Bank Loan Ratings
The Rating Process
Rating Criteria for Engineering Sector
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Nitin Kansal Director CRISIL Ratings Limited D:+91 124 672 2154 nitin.kansal@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com

Prakruti Jani
Media Relations
CRISIL Limited
M: +91 98678 68976
B: +91 22 3342 3000
PRAKRUTI.JANI@crisil.com

Rutuja Gaikwad
Media Relations
CRISIL Limited
B: +91 22 3342 3000
Rutuja.Gaikwad@ext-crisil.com

Gaurav Arora
Associate Director
CRISIL Ratings Limited
D:+91 22 3342 3977
gaurav.arora@crisil.com

VISHAL CHAUHAN
Senior Rating Analyst
CRISIL Ratings Limited
B:+91 124 672 2000
VISHAL.CHAUHAN@crisil.com

For Analytical queries:
ratingsinvestordes@crisil.com

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