

R S Contractors

June 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00	CARE B; Stable; ISSUER NOT COOPERATING*	Revised from CARE B+; Stable and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	27.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*	Revised from CARE B+; Stable / CARE A4 and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

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

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from R S Contractors to monitor the rating(s) vide e-mail communications dated April 26, 2024, May 06, 2024, May 28, 2024, June 10, 2024, and June 13, 2024, and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating of R S Contractors' bank facilities will now be denoted as CARE B; Stable/ CARE A4; ISSUER NOT COOPERATING*. Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating has been revised on account of non-availability of requisite information due to non-cooperation by R S Contractors with CARE Ratings Ltd.'s efforts to undertake a review of the rating outstanding. CARE Ratings Ltd. views information availability risk as a key factor in its assessment of credit risk. Further the ratings are constrained by small scale of operations of the firm with low profitability margins, below average financial risk profile, elongated operating cycle, intense competition as a result of competitive and fragmented nature of Industry and constitution risk. However, the ratings draw comfort from the experienced promoters and moderate though geographically concentrated order book.

Analytical approach: Standalone

Outlook: Stable

Detailed description of the key rating drivers:

At the time of last rating on July 12, 2023, the following were the rating strengths and weaknesses.

Key weaknesses

Small scale of operations with moderate profitability margins

Total operating income (TOI) of R. S. Contractors stood small at Rs. 14.43 crore for FY23 (refers to the period April 01 to March 31; based on the provisional results) as against Rs. 28.21 crore for FY22 (Audited). The decline in TOI was on account of lower execution of the orders in hand during FY23. Further, the geographically concentration and small scale of operations in a competitive industry limits the bidding capability, pricing power and benefits of economies of scale. The firm is expecting to achieve TOI of ~Rs. 40 crores in FY24 on the back of moderate order book in hand, providing medium-term revenue visibility. The profitability margins of the firm have remained moderate since last five financial years (FY19 -FY23) as the profitability varies with the project due to tender driven nature of the business owing to varying margins in the different projects undertaken by the firm. The PBILDT margin and PAT margin of the firm stood moderate at 12.59% and 2.04% respectively for FY23 as against

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

7.43% and 1.55% respectively for FY22. Marginal improvement in PBILDT margin in FY23 is on the back of execution of tenders which fetch better margins. Improvement in PBILDT has also led to improved PAT in FY23. Going forward, margins are expected to remain moderate in near to medium term.

Below average financial risk profile

As on March 31, 2023, the debt profile of RSC comprises of term loan (vehicle loans and GECL) of Rs. 2.12 crores, working capital bank borrowings of Rs. 9.98 crores, and unsecured loans from promoters of Rs. 5.49 crores. Unsecured loans are subordinated to the bank debt and treated as part of the net worth (quasi equity) as per the sanction letter of Canara bank dated June 29, 2022. The capital structure of the firm is moderate over the past two years' period. In FY23, the capital structure of the firm marginally improved and stood moderate as marked by overall gearing ratio which stood at 0.75x as on March 31, 2023, as against 0.91x as on March 31, 2022. The improvement is on the back of decline in term debt coupled with accretion of reserves to net worth base of the firm. However, owing to low profitability margins, the net worth base of the firm remained low marked by partner's capital of Rs. 16.10 crore as on March 31, 2023. Going forward, capital structure of the firm is expected to remain moderate on account of limited debt levels. Any increase in borrowings of the firm will remain a key monitorable. Further, debt service coverage indicators of the firm remained weak as marked by interest coverage and total debt to GCA of 1.11x and 18.99x as on March 31, 2023, as against 1.25x and 16.88x in FY22. Marginal deterioration in the debt coverage indicators is mainly on account of lower PBILDT at absolute level due to lower value of orders executed in FY23. Debt coverage indicators are expected to remain weak in near to medium term.

Elongated operating cycle

The operating cycle of the firm stood elongated as marked by operating cycle of 349 days in FY23 (Prov.). For the smooth execution of projects, inventory is required to be maintained at minimum level at project site resulting in average inventory of 51 days in FY23. The collection period stood stretched at 315 days in FY23 as the company receives payment which basically depends on the fund availability with the government organizations. Sometimes, procedural delays also tend to act as a hindrance for faster realisation of debtors. Moreover, the firm has to deposit earnest money at ~3-5% of the tender cost, with the respective government authority. The firm enjoys credit period of around 10-20 days resulting in average creditor's period of 17 days in FY23. The fund based working capital limit stood almost fully utilised during past 12 months ending June 30, 2023. Non-fund-based limits are utilised ~92-96% over the last 12 months' period ending June 30, 2023.

Fragmented and competitive nature of industry

The firm undertakes civil construction activities, which are fragmented in nature with a large number of small and medium scale players present at regional level. This, coupled with the tender-driven nature of contracts poses huge competition and puts pressure on the profit margins of the players. Furthermore, the firm deals with government organization for which it has to participate in the tenders, wherein the firm quotes the bid thus, having to face the risk of successful bidding for the same. The same again comes with the risk of quoting at less prices to sustain the competition.

Intense competition due to exposure to tender-driven nature of business

The firm secures orders on tender basis. The same results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances and aggressive bidding are other external factors that affect the credit profile of industry players.

Partnership constitution of the firm

RSC's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement and insolvency of partners. Moreover, partnership firms have restricted access to external borrowing, as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

Key strengths

Experienced partners

R. S. Contractors (RSC) was established in 2012, promoted by Smt. Ram Murti Devi and Smt. Rashmi Yadav. Later on, Smt. Ram Murti Devi resigned and Mr. Brij Kishor joined as the second partner. The day-to-day operations of the firm are managed by Mr. Subodh Yadav, Husband of Smt. Rashmi Yadav and cousin brother of Mr. Brij Kishor. Smt. Rashmi Yadav is a postgraduate (MBA) and has an experience of around a decade in the industry. The second partner, Mr. Brij Kishor has an experience of around three years in the domain. He has done Doctor of Philosophy (PHD) and works as a professor in a college of Etah city and draws monthly salary from the college. Father of Mr. Subodh Yadav was also into construction domain and his firm M/S Jugendra Singh and Co. was class 'A+' contractor. Thereby, promoters are well-equipped with the required skill set and knowledge of the construction domain.

Moderate though geographically concentrated order book

As on May 22, 2023, the unexecuted order book position of the firm was Rs. 113.51 crore, which is 7.87 times of the immediate previous year's total operating income. The order book at present is moderate. Hence, effective and timely execution of the orders has a direct bearing on the margins attained. In terms of geography, the order book stands concentrated with ~66% orders in single state i.e., Uttar Pradesh.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

[Policy in respect of non-cooperation by issuers](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Lucknow based R. S. Contractors (RSC) was established in 2012 as a partnership firm. The firm is currently managed by its partners Smt. Rashmi Yadav and Mr. Brij Kishor. The day -to-day operations of the firm are managed by Mr. Subodh Yadav, Husband of Smt. Rashmi Yadav. RSC is a registered class 'A' contractor which enables the firm to participate in higher value contracts floated by the various government departments. It is engaged into civil construction projects awarded by Public Works Department (PWD), Uttar Pradesh Avas Evam Vikas Parishad (UPAVP) and other state government authorities of Lucknow, Kanpur, Mainpuri, Sitapur and other regions of Uttar Pradesh state. RSC constructs buildings, colleges, hostels and hospitals for the above-mentioned authorities. The firm gets contracts through tender-based bidding process with the various Government authorities. The firm also takes services from the sub-contractors to complete the work received. The primary raw material for the firm consists of cement, grids, electrical fittings, etc. which it procures from domestic suppliers near the project site.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	28.21	14.43
PBILDT	2.09	1.68
PAT	0.44	0.20
Overall gearing (times)	2.07	1.89
Interest coverage (times)	1.25	1.01

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork and CRISIL have placed the rating assigned to the bank facilities of R S Contractors into Issuer Not Cooperating category vide their press releases dated May 29, 2024, and March 20, 2024 respectively, on account of their inability to carry out a review in the absence of requisite information.

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE B; Stable; ISSUER NOT COOPERATING*
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	3.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	24.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*

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

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	10.00	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (12-Jul-23)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	24.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable / CARE A4 (12-Jul-23)	-	-
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	3.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable / CARE A4 (12-Jul-23)	-	-

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

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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Disclaimer:

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