

K Ramachandra Rao Transmission and Projects Private Limited

March 23, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	25.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	163.00 (Reduced from 173.00)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	188.00 (Rs. One Hundred Eighty-Eight Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of K. Ramachandra Rao Transmission and Projects Private Limited (KRR) is on account of improvement in total income and profitability margins during FY20 (refers to April 31), improvement in capital structure with improvement in debt service coverage indicators and proposed amalgamation of Praveen Spinners India Private Limited with KRR leading to reduction in exposure towards associate company. The ratings continue to derive strength from experienced promoters with established track record, reputed customer base, comfortable working capital cycle, projects being funded through central government grants and international funding agencies minimizing counter party risk and synergy with being the supplier and stable industry outlook. The ratings are, however, tempered by client concentration risk, moderate order book position, presence a highly fragmented industry with many unorganized players and delay in setting up of a hydro power project by floating an SPV.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement of PBILDT margin above 14% on sustained basis.
- Ability to acquire new orders and completion of the same in a timely manner.
- Ability of the company to complete the Hydel power project without any further time or cost overrun.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Overall gearing of the company going above 1.00x.
- Elongation of collection period to more than 200 days.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in total operating income and profitability margins

The total operating income of the company has improved by around 26% from Rs.145.61 crore during FY19 to Rs.183.98 crore during FY20 backed by orders from Bihar State Power Transmission Company Limited (BSPTCL), Jharkhand Urja Sancharan Nigam Ltd (JUSNL), Power Grid Corporation of India Limited (PGCIL), etc. Along with the improvement in TOI of the company, PBILDT margin has also improved by 145 bps from 14.27% in FY19 to 15.75% in FY20 owing to significant increase in sales coupled with improved efficiency of the company. In tandem with PBILDT margin, PAT margin of the company has also improved significantly by 217 bps from 6.80% in FY19 to 8.97% during FY20 owing to decrease in interest charges during the year.

Comfortable capital structure with improvement in debt service coverage indicators

The debt profile of the company comprises working capital bank borrowing, vehicle loan, unsecured loan, mobilization advances and LC backed creditors as on March 31, 2020. The capital structure of the company marked by overall gearing improved and stood at 0.17x as on March 31, 2020 (0.19x as on March 31, 2019). Furthermore, the debt coverage indicators such as total debt/GCA and interest coverage ratio remained comfortable at 1.60x and 5.70x during FY20 respectively (as against 2.58x and 3.95x during FY19 respectively).

Proposed amalgamation of Praveen Spinners India Private Limited with KRR leading to reduction in exposure towards associate company

KRR has been supporting its associate company by infusing funds as and when required for working capital and day-to-day business requirements and also by extending loans and advances. At standalone level, loans given to related parties by KRR stood at Rs.43.16 crore as on March 31, 2020 (almost 26% of Tangible Net worth) as against Rs.33.50 crore as on March 31, 2019 (almost 23% of Tangible Net worth). Further, KLL had provided corporate guarantee for the bank facilities availed by Praveen Spinners (India) Private Limited to the extent of Rs.19.47 crore. However, KRR has filed the proposal for amalgamation of PSIPL and KRR with NCLT dated February 11, 2021. The approval for the same is still awaited. Also, all the bank facilities of

PSIPL have been closed during November 2020 and subsequently the corporate guarantee issued by KRR has ceased to exist. Therefore, with the amalgamation of PSIPL and KRR, the exposure of KRR will reduce significantly.

Experienced promoters with established track record

KRR has been present in the industry for more than three decades and has established strong relationships with various industry segments. The main promoter Mr. K. Ramachandra Rao, managing director of the company, has diversified experience in the areas of executing contracts for construction of EHV transmission lines & substations. Mr. K. V. Koteswara Rao, director, has about two decades of experience working for Andhra Pradesh Central Power Distribution Company. Another director, Mr. N. Venkateswara Rao, has experience of about three decades and looks after the project erection management. Another director, Mr. N. Madhava Rao, looks after overall management of the company has an experience of about two and half decades in the field of construction business.

Mr. K. Ramachandra Rao has established M/s Kora Industries, in the year 1993 with Sri K. V. Koteswara Rao (one of the director of KRR) as Managing Partner for fabrication of tower parts and structures, mainly for their captive requirement. Further KRR is purchasing transmission towers and substation structure from Kora Industries.

Projects under execution are funded through central government grants and international funding agencies minimizing counter party risk

Out of Rs.230.35 crore worth of orders in hand as on February 04, 2021, 85-90% worth of orders is funded through central government agencies (Rural Electrification Corporation) and, international banks such as Asian Development Bank, Japan International Cooperation Agency etc. Thus, the risk of payment arising due to liquidity issues pertaining to State Discoms is mitigated largely, as the funds are provided directly by Central Governments/International funding agencies. All the funds pertaining to projects are under escrow account to ensure the funds are utilised for the allocated projects.

Comfortable working capital cycle of the company

The operating cycle of KRR, although deteriorated has remained comfortable at 55 days during FY20 (39 days during FY19) mainly due to increase in average collection period and average creditor period. The average collection period, although improved from 314 days during FY19 to 246 days during FY20 remained elongated. Apart from this, the inventory period of the company has also deteriorated from 28 days during FY19 to 45 days during FY20 on account of higher inventory level at the end of FY20 due to Covid-19 lockdown. Similarly, the creditor days also deteriorated from 304 days in FY19 to 236 days in FY20. The average working capital utilization of the company for the last twelve months ending January 2021 has been comfortable at 70%.

Stable Industry outlook

Power Transmission is the key link in the overall power sector value chain. Power transmission aims at evacuating power from power generating units which are spread across the country and supplying to various distribution entities, which in turn supply power to end consumers. There has been consistent increase in transmission capacity in the country over the decades with length of transmission lines increasing from 1,70,800 ckm in 1991 to 4,27,410 ckm as on July 31, 2020. The transformation capacity stood at 9,79,063 Mega Volt Ampere (MVA) as on July 31, 2020. The Government plans to add 175 GW of renewable energy (RE) power generation capacity in India by FY2022 which will require huge investments in the transmission sector.

Further, the power deficit in India is on a declining trend and has fallen from 11.07% in FY2008-09 to 0.40% by the end of FY2020. With significant amount of power capacity addition of around 200 GW (including 175 GW RE) in the next four to five years, India is expected to be a power surplus nation which would also require cross border transmission assets.

Key Rating Weaknesses

Deterioration in order book position with reputed customer base

As on February 04, 2021, the company had an outstanding order book of Rs.230.35 crore as against Rs.287.60 crore as on December 31, 2019 to be executed during Q4FY21 - FY22. The order book mainly consists of erection of transmission lines. The company's major clients comprise Haryana Vidyut Prasaran Nigam Limited (HVPNL), Power Grid Corporation of India Limited, Bihar State Power Transmission Company Limited (BSPTCL), North Central Railway, Jharkhand Urja Sancharan Nigam Ltd (JUSNL), etc. KRR undertakes turnkey contracts and most of these contracts have price escalation clause which shield company to certain extent from fluctuations in raw material prices. Further, the confirmed order book translates to 1.25x of total income in FY20 which provide short term revenue visibility.

Delay in proposed hydro power project through SPV

KRR proposes to set up a 22.80 MW (4 units of 5.70 MW) hydro power project across Yamuna river in Uttarakhand by floating a separate SPV. For this purpose, the company has floated an SPV in the name of Barnigad KRR Power Private Limited during FY19. The total estimated cost of the project is Rs.220 crore which is proposed to be funded through debt equity ratio of 70:30. The promoters are awaiting final approvals from Uttarakhand Government to start the project, post to which the SPV would be formed and other agreements would entered. The financial closure of the project is expected to be completed by FY22. KRR has incurred Rs.15.55 crore till February 2021 (i.e. 24% of the total equity commitment of Rs.66 crore) towards carrying out detailed project report, other consultation charges and for obtaining various statutory clearances. However, as the approval from Uttarakhand Government has not been received the project is delayed until the same is received. Further, the financial closure for the project has also been kept on hold until the approval is received.

Fragmented nature of industry with many unorganized players

The company is engaged in erection of extra high voltage (EHV) transmission lines, setting up of Sub-stations, electrical generation stations which are predominantly unorganized with many small participants. However, being in the industry for more than three decades the company has developed the long term established relationships with both government bodies and Private entities on account of which they are regularly receiving the orders.

Liquidity position - Strong

The liquidity position of the company is strong as represented by the current ratio which stood at 1.59x as on March 31, 2020. The company has earned GCA of Rs.17.65 crore during FY20. Additionally, the company also have free cash balance and liquid funds to the extent of Rs.31.23 crore as on March 10, 2021. Also, there are no major capex envisaged in the near future. Considering the GCA level and cash and liquid funds balance, the company is expected to meet its debt and interest obligations comfortably during FY21.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis – Non-Financial Sector](#)

[Criteria for Short term Instruments](#)

About the company

K. Ramachandra Rao Transmissions and Power Private Limited (KRR) was incorporated in 1984 as a partnership firm by Mr. K. Ramachandra Rao and his family members; it was reconstituted as a private limited company in 2005. The company is engaged in erection of extra high voltage (EHV) transmission lines, setting up of Sub-stations, electrical generation stations etc., on turnkey and partial-turnkey basis i.e. it offers End-to-End services in EPC Contracting of EHV Power Transmission & Distribution Infrastructure. The company is registered as a 'Grade A' electrical contractor with the governments of Andhra Pradesh, Haryana, Chhattisgarh, Bihar and Karnataka, and is an approved vendor for Power Grid Corporation of India Ltd. The company is accredited with quality certifications viz. ISO 9001:2008 for quality system and ISO 14001:2004 for environmental management system.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	145.61	183.98
PBILDT	20.77	28.97
PAT	9.90	16.50
Overall gearing (times)	0.19	0.17
Interest coverage (times)	7.08	14.48

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	153.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (09-Mar-20)	1)CARE A-; Stable (06-Feb-19)	1)CARE A-; Stable (26-Mar-18)
2.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (09-Mar-20)	1)CARE A2 (06-Feb-19)	1)CARE A2 (26-Mar-18)
3.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A2	-	1)CARE A2 (09-Mar-20)	1)CARE A2 (06-Feb-19)	1)CARE A2 (26-Mar-18)
4.	Non-fund-based - ST-Bank Guarantees	ST	153.00	CARE A2	-	1)CARE A2 (09-Mar-20)	1)CARE A2 (06-Feb-19)	1)CARE A2 (26-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA**Annexure-4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

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

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