India Ratings & Research
A Fitch Group Company

India Ratings Affirms RDC Concrete (India) at ‘IND A-’/Stable; Rates Proposed NCDs

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India Ratings and Research (Ind-Ra) has affirmed RDC Concrete (India) Private Limited’s (RDC) Long-Term Issuer Rating at ‘IND A-’. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR940 (reduced from INR1,000)	IND A-/Stable/IND A1	Affirmed
Non-fund-based limits	-	-	-	INR510 (increased from INR450)	IND A-/Stable/IND A1	Affirmed
Term loans	-	-	FY27	INR2,200	IND A-/Stable	Affirmed
Proposed non-convertible debentures (NCDs)	-	-	-	INR1,000	IND A-/Stable	Assigned

Analytical Approach: Ind-Ra continues to take a consolidated view of RDC and its wholly-owned subsidiaries Neptune Readymix Concrete Private Limited and Ultrafine Minerals & Admixtures Private Limited while arriving at the ratings as all the companies operate in the same line of business and have strong linkages.

Key Rating Drivers

Strong Market Position with Diversified Geographical Presence: Over the years, RDC has gradually diversified its geographic reach from predominantly being a southern India ready mix concrete (RMC) player to a pan-India player. It still has a significant presence in south (9MFY23: 45% of sales, FY22: 48%), followed by west (26%, 22%), east (17%, 21%) and north (12%, 10%). The company is a leading independent RMC manufacturer, with a market share of 6.57% in India in January 2023, as per management, next to the cement-integrated pan-India players Ultratech Cement Limited (‘IND AAA’/Stable), ACC Limited, Prism Johnson Limited (‘IND A+’/Positive) and Nuvoco Vistas Corporation Limited (‘IND AA’/Positive). Subsequent to RDC’s acquisition by Hella Infra Market Private Limited (Hella; ‘IND A’/Negative) in December 2021, the consolidated entity has become the second-largest player in India in the RMC business. Ind-Ra believes RDC can leverage on its strong parentage in expanding its geographical presence further, which would strengthen its business profile.

Significant Improvement in Operating Performance Likely in FY23: On a consolidated basis, the revenue grew at a CAGR of around 23% over FY17-FY22 (FY22: INR10,094 million, FY21: INR6,700 million) due to increased focus on obtaining new clients in industrial segment, stable realisations and successful expansions across various cities. The EBITDA surged to INR870 million in FY22 (FY21: INR291 million) attributed to the increase in sales volumes and resultant operational efficiencies. The revenue grew 46% yoy to INR10,094 million in 9MFY23 and EBITDA 90% yoy to INR855 million due to an increase in sales volumes. In 9MFY23, it recorded sales volumes of 2,327 kilo cubic metre (kcum; (9MFY22: 1,751kcum, FY22: 2,371kcum, FY21: 1,719kcum). RDC's margins have also shown an improvement post acquisition by Hella, which has brought in financial stability and operational synergies including procurement benefits. Further, the company has reduced its employee-related cost while the increased volumes have resulted in improved economies of scale.

As a result, Ind-Ra expects the company's operating performance to improve significantly in FY23. The revenue is likely to grow further over FY24 with the company adding further plants, which are also expected to gradually ramp up in the near-to-medium term.

On a standalone basis, Neptune Readymix Concrete and Ultrafine Minerals & Admixtures generated revenue of INR32.2 million in 1HFY23 (FY22: INR142.3 million) and INR140.1 million (INR212.1 million) and EBITDA of INR6.1 million (INR39.5 million) and INR16 million (INR14.3 million), respectively.

Capacity Expansion to Drive Near-to-Medium Growth: RDC is likely to incur a total capex of INR1,200 million in FY23 (FY22: INR792 million), of which around INR800 million will be incurred towards setting up additional 20 plants, INR200 million in its subsidiary, Ultrafine Minerals & Admixtures Private Limited and the balance towards maintenance of existing plants. As of 1HFY23, it incurred capex of INR625 million. The company intends to incur capex of around INR1,200 million over FY24 and INR800 million each over FY25 and FY26. To fund the ongoing capex, the company raised a term debt of INR750 million in FY23 and is proposing to raise NCDs of INR1,000 million over February-March 2023, a portion of which may be utilised towards the capex. The capex incurred till date has been funded by a bank loan of INR320 million, an unsecured loan from Hella of INR340 million and the balance from internal accruals.

Ind-Ra believes higher volumes driven by the new capacity additions would drive revenue growth and improve the business risk profile over the medium term. As of December 2022, the company has set up 75 plants and management expects to set up another 10 plants by FYE23. On an average, each plant (set up at a cost of INR30 million- 40 million) takes three-to-six months to ramp up output, and generate significant cash flows. The company also plans to increase its ground granulated blast-furnace slag sales in the near term.

Credit Metrics to Remain Comfortable in FY23: On a consolidated basis, the net leverage (net debt/EBITDA) excluding acceptances improved to 1.9x in FY22 (FY21: 2.4x, FY20: 1.95x) and gross interest coverage (EBITDA/gross interest expense) to 7.24x (2.72x, 2.86x) owing to an increase in EBITDA offsetting the increase in debt. The company's expansion plan is likely to lead to an increase in the net leverage (including acceptances) in FY23-FY24 (FY22: 1.97x, FY21: 3.03x), which will improve post capex completion with an increase in its scale of operations, higher profitability leading to steady cash flow generation coupled with amortising debt. Ind-Ra expects the net leverage (including acceptances) and interest coverage to be comfortable at around 2.6x and 2.9x, respectively, in FY23.

Increase in Net Working Capital, Debtor Management Remains Key: With the growing concerns resulting from liquidity and demand issues looming over the residential real estate industry and to safeguard the debtor position, the company has shifted its focus to non-residential infrastructure projects since FY20. This resulted in a change in the project mix to 60%-65% non-residential in 9MFY23 from 50%-50%. The company intends to increase the non-residential mix further to 75% over the medium term. Total debtors stood at INR3,077 million in FY22 (FY21: INR2,322 million), of which around 6% of debtors were outstanding for more than 180 days (FY21: 8%), majorly engineering, procurement and construction players. Furthermore, the company has reduced bad debt write offs and debtor provisioning (FY22: almost negligible, FY21: 2.7% of revenue) due to better recoveries post lockdowns and higher provisions made during the past couple of years.

The inherent characteristic of a RMC manufacturer is bulky receivable position which ranges from 60-150 days as it usually provides a credit period of 90-120 days to the customers. Thus, there is a need for robust credit control policy to make sure there are no writes offs of the same. More than 94% of RDC’s receivables as of March 2022 were outstanding for less than 180 days; this reduced to 80% in December 2022 (December 2021: 80%). However, basis industry trends, cash collections from customers increase over the fourth quarter each year. In the cases where credit is extended for more than 90 days, the counter party risk profile is closely monitored by the company. It follows a conservative accounting policy and provides as per the expected credit loss by creating appropriate provisions for the debtors exceeding 180 days at 50% and 360 days at 100%. The company also have a diversified customer base, which fairly spreads out its counter party risk.

The company maintains a minimal inventory since the concrete has a shelf life of only three hours and is produced, as and when an order is received. The company enjoys a credit period of 75-150 days and is further trying to pay creditors early for better terms. RDC’s ability to maintain its working capital efficiency will remain a key monitorable. The company’s main focus is on cost and collection.

Moderate Linkages with Parent: The acquisition by Hella would result in potential operational synergies with respect to raw material sourcing at a reasonable cost, access to newer geographies and larger customer base as Hella is also engaged in the supply of construction materials, including RMC, aggregate, fly-ash, paints, construction chemicals, steel, and cement. While the three-member board of RDC comprises the two co-founders of Hella − Aaditya Sharda and Souvik Sengupta − the operations and treasury are managed by the individual teams with oversight from the management and board. Hella has infused unsecured loans worth INR0.3 billion as of April 2022, which is likely to get converted into equity and will provide raw materials worth INR0.140 billion to RDC. The parent can infuse additional funds, if needed, thus, providing RDC with a financial flexibility.

Hella’s consolidated revenue increased to around INR46.7 billion during 10MFY22 (FY21: INR12.4 billion) while EBITDA margins increased to 5.8% (5.2%). RDC has not up-streamed cash to Hella thus far, and management has articulated that it does not intend to do so. However, given RDC is a recent acquisition, the strength of the strategic linkages would evolve, basis the future plans of Hella.

The entire external borrowings of RDC are guaranteed by Hella (replacing the comfort letter from True North Trusteeship). However, Ind-Ra has assessed RDC based on its standalone credit profile considering the moderate linkages with parent.

Liquidity Indicator - Adequate: Although RDC has been generating positive cash flow from operations, its free cash flow has been negative over the years, due to continuous capex and moderate cash flow from operations. The free cash flow is likely to remain negative in FY23-FY24, owing to the large capex. The company’s working capital utilisations remained moderate with the average utilisation of the fund-based and the non-fund-based limits of around 76% and 60%, respectively, in the 12 months ended December 2022. The company has increased the fund-based limits and non-fund-based limits to INR610 million in September 2022 (January 2022: INR300 million) and INR510 million (INR300 million) in July 2022, respectively. The cash and equivalents stood at INR38 million at FYE22 (FYE21: INR185 million). The company has around INR326 million and INR451 million of repayments on its contracted debt due in FY23 and FY24, respectively, which are likely to be met comfortably by internal accruals.

The company has raised funding for the capex for FY23 and the same is likely to be secured by corporate guarantee from its Hella. Further, the company intends to raise NCDs of INR1,000 million over the remaining 4QFY23 towards general corporate purposes and growth capex. Any major change in Hella’s credit profile can affect the financial flexibility of RDC and will remain a key rating monitorable.

Income Tax Searches: The premises of RDC and its parent Hella were searched by the Income Tax department in March 2022. Ind-Ra understands from the management that no demand/query has been raised by the department with respect to RDC yet. Ind-Ra will closely monitor the developments in this matter and take appropriate rating actions in case of any adverse outcome on the matter.

High Competition: The company faces intense competition from large integrated players and also from several unorganised players, owing to lower capital intensity and low value addition nature of the RMC business.

Rating Sensitivities

Positive: A substantial improvement in the scale and profitability, resulting in an improvement in the credit profile with the net leverage (including acceptances) reducing below 1.75x on a sustained basis, and generation of positive free cash flow, could lead to a positive rating action.

Negative: A decline in the profitability and/or weakening of the liquidity and/or credit metrics with the net leverage (including acceptances) increasing and sustaining above 2.75x, would lead to a negative rating action. Also, any adverse development or significant weakening of the parent's credit profile would be negative for the ratings.

ESG Issues

ESG Factors Relevant to Rating: 'GHG Emissions and Air Quality' under Environment has relevance and moderate impact to the credit rating of RDC. Increased environmental compliance costs and capital expenditures in overseas subsidiaries may have a modest impact on the group's margins and cash flows in conjunction with other factors. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Set up in 1993 by Unitech Constructions Ltd and RDC Concrete Singapore, RDC is the largest standalone RMC company in India with 69 RMC plants across the country. In 2005, RDC was acquired by True North when it had five RMC plants and one paver block plant with operations in North India. RDC was acquired by Hella in December 2021.

Hella is a one-stop source for various categories of construction materials, including ready-mix concrete, aggregate, fly-ash, paints, construction chemicals, steel, cement. The company's business model includes cloud manufacturing catering to B2B (Business-to-Business) clients, direct to retail and overriding commission through its own contract manufactured product and other branded products.

CONSOLIDATED FINANCIAL SUMMARY - RDC

Particulars	FY22	FY21
Revenue (INR million)	10,094	6,700
EBITDA (INR million)	870	287
EBITDA margin (%)	8.6	4.3
Interest coverage (x)	6.1	2.7
Net leverage (including discounted LCs) (x)	1.97	3.1
Source: Ind-Ra, RDC		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	25 May 2022	11 October 2021	10 September 2020	14 June 2019
Issuer rating	Long-term	-	IND A-/Stable	IND A-/Stable	IND A-/Rating Watch with Developing Implications	IND A-/Stable	IND A-/Stal
Term loans	Long-term	INR2,200	IND A-/Stable	IND A-/Stable	IND A-/Rating Watch with Developing Implications	IND A-/Stable	IND A-/Stal
Fund-based limits	Long-term/Short-term	INR940	IND A-/Stable/IND A1	IND A-/Stable/IND A1	IND A-/Rating Watch with Developing Implications /IND A1/Rating Watch with Developing Implications	IND A-/Stable/IND A1	IND A-/Stable/II A1
Non-fund-based limits	Long-term/Short-term	INR510	IND A-/Stable/IND A1	IND A-/Stable/IND A1	IND A1/Rating Watch with Developing Implications	IND A1	IND A1
Proposed NCDs	Long-term	INR1,000	IND A-/Stable	-	-	-	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Parent and Subsidiary Rating Linkage

The Rating Process

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