

February 27, 2019

## ACRA upgrades RKS-Holding LLC to A(RU), outlook Stable

### Lead analysts:

Alexander Gushchin, Associate  
Director  
+7 (495) 139-0489  
alexander.gushchin@acra-ratings.ru

Maxim Khudalov, Director  
+7 (495) 139-0496  
maxim.khudalov@acra-ratings.ru

### Key rating assessment factors

The credit rating of [RKS-Holding LLC](#) (hereinafter, RKS-Holding, the Company, or the Group) has been upgraded due to the decrease in the Group's debt load as a result of the withdrawal of JSC Vladimirskie Kommunalnye Sistemy with a high level of debt from its perimeter. The Company's operations are still characterized by very low industry risks and strong market positions, while its credit rating is based on an average business profile, acceptable profitability and a strong liquidity position, coupled with low cash flow assessment. Previously, the Company was assigned A-(RU), outlook Stable.

RKS-Holding is one of the largest utilities operators in Russia providing water supply and water sewage services (key business) as well as heating and electric power supplies. The Company provides its services in eight regions of Russia. The Group comprises companies operating on the basis of lease/concession agreements and other operating assets supporting its activities. RKS-Holding is owned by PJSC T Plus.

**Lower debt burden** as a result of the withdrawal of JSC Vladimirskie Kommunalnye Sistemy, which had a higher debt burden compared to the average of the Group's enterprises, from the Group's consolidation perimeter. As a result of these changes, according to ACRA preliminary estimates, the ratio of total debt to FFO before net interest payments was 1.6–1.7x by the end of 2018, while the ratio of FFO before net interest payments to interest payments rose to 5.5–5.8x. This indicates a low level of debt burden, which will be maintained in 2019–2021, according to ACRA forecasts.

**Strong liquidity position.** The Group's debt structure is fairly well diversified in terms of repayment periods. In 2019, the Company will need to repay nearly RUB 1 bln (20% of the current debt). The Company's liquidity is supported by unused credit limits in the amount of RUB 3.7 bln as of early 2019 (total loan debt is RUB 5.2 bln). According to ACRA estimates, the short-term liquidity ratio will be rather high in 2019–2021 — around 2.4x.

**Low free cash flow and low capital expenditures.** According to ACRA estimates, the ratio of the Company's capital expenditures to revenues amounted to 9% in 2018, and will be at 10–11% in the next three years. It points to a relatively low burden in terms of cash flow expenses. At the same time, the weighted average FCF margin (free cash flow) for 2016–2021 is close to zero, according to ACRA forecasts.

**Infrastructure monopoly with a small-scale business and heightened regulatory risk.** Services that the Group provides are qualified as a natural monopoly: there is virtually no competition in the utilities sector, service prices are relatively predictable, and demand is non-elastic and almost unresponsive to price changes. The Company's position can be strengthened should there be an increase in the share of regions in its revenues, in which concession agreements are concluded between the local administration and the Company, which, according to ACRA estimates, could lower the risk of replacement of the water supply and sewage operator. Currently, the share of such regions is below 50% of the Company's revenues. Supply risks are related to non-payments by consumers. Receivables impairment reserve to revenues ratio is around 2% (the above share of non-payments is incorporated into the rates). The Company's regulatory risk is driven by a high share of the regulated rates in the ultimate service price coupled with low business profitability: in 2019–2021, the average FFO margin before net interest payments and taxes will be maintained at the current level, i.e. 11–13%. Regions in which the Group operates exhibit a moderate level of socio-economic development, according to ACRA estimates. The scale of business remains small: the ratio of FFO before net interest payments and taxes will be RUB 3.2–3.4 bln in 2019–2021, according to ACRA estimates. The investment program is small in view of the business scale, but it is subject to revision if the investment component is not fully incorporated into the rates.

**Key assumptions**

- In 2018-2020, the average tariff indexation rate to equal inflation (at 4% on average);
- Maintaining the receivables impairment reserve to revenues ratio within 3%;
- Implementation of capital development program by the Company in compliance with the announced deadlines and scope (around 10% of revenues);
- Maintaining the current leverage ratio (total debt to FFO before net interest payments ratio below 2.0x);
- Retaining current access to external liquidity sources.

**Potential outlook or rating change factors**

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

**A positive rating action may be prompted by:**

- FFO margin before net interest payments climbing above 15%;
- FCF margin rising above 5%;
- Scale of business increasing substantially;
- FFO before net interest payments to interest payments ratio rising above 10x and total debt declining below 1.0x FFO;
- Share of regions, where concession agreements between the local administration and the Company were concluded, increasing above 70%.

**A negative rating action may be prompted by:**

- Higher regulatory risks;
- Receivables impairment reserve to revenues ratio rising above 3%;
- An increase in leverage (total debt rising above 2.0x FFO) and a decline in the FFO before net interest payments to interest payments ratio below 5.0x, coupled with the simultaneous deterioration of the debt profile;
- A decline in FFO margin before net interest payments and taxes below 5%;
- A decline in liquidity position.

**Rating components****Standalone creditworthiness assessment (SCA):** a.

**Adjustments:** none.

**Support:** none.

**Issue ratings**

No outstanding issues have been rated.

**Regulatory disclosure**

The credit rating has been assigned under the national scale for the Russian Federation and is based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

For the first time, the credit rating of RKS-Holding LLC was published by ACRA on March 27, 2018. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The assigned credit rating is based on data provided by RKS-Holding LLC, information from publicly available sources as well as ACRA's own databases. The credit rating is solicited, and RKS-Holding LLC participated in its assignment.

No material discrepancies between the provided data and data officially disclosed by RKS-Holding LLC in its financial statements have been discovered.

ACRA provided no additional services to RKS-Holding LLC. No conflicts of interest were discovered in the course of credit rating assignment.

(C) 2019

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.com](http://www.acra-ratings.com)

Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – [www.acra-ratings.com/criteria](http://www.acra-ratings.com/criteria).

No credit rating and/or credit rating outlook is regulated by the Central Bank of the Russian Federation, unless distributed so that such credit rating and/or credit rating outlook is in the public domain.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – [www.acra-ratings.com](http://www.acra-ratings.com). Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.