

Press Release

Raghava Constructions (India) Private Limited (RCIPL)
(Formerly M/s Raghava Constructions)

January 23, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1.	Long Term Fund Based Facility - Cash Credit	100.00*	IVR BBB- Stable Outlook (IVR Triple B Minus with Stable Outlook)
3.	Long Term/Short Term Non-Fund Based Facility - Bank Guarantee	584.00**	IVR BBB- Stable Outlook (IVR Triple B Minus with Stable Outlook)/IVR A3 (IVR A Three)
4.	Short Term Non-Fund Based Facility – Letter of Credit	66.00	IVR A3 (IVR A Three)

*Includes INR 45.00 Crore of proposed limit

**Includes INR 234.00 Crore of proposed limit

Details of Facilities are in Annexure I

Detailed Rationale

The rating derives strength from experienced promoters & qualified management team, proven project execution capability, reputed clientele, sufficient asset base, strong order book, Y-o-Y improvement in revenue & EBITDA margin, comfortable capital structure with healthy debt protection metrics and Strong liquidity. The rating however is constrained by susceptibility of operating margin to volatile input prices, high geographical & moderate customer concentration and highly fragmented & competitive nature of the construction sector.

Key Rating Sensitivities

Upward revision factors:

Growth in scale of operations with improvement in profitability while maintaining the debt protection metrics on a sustained basis

Downward revision factors:

Any deterioration in debt protection metrics and/or liquidity profile

List of key rating drivers with detailed description

Key Rating Strengths

- **Experienced promoters & Qualified management team**

The promoters, Ponguleti Prasad Reddy, is a first- generation entrepreneur having more than two-decade experience in the construction sector. The other promoters/directors of the Company also have ample experience in the construction sector. The second generation also started to take participate actively in day to day business of the Company. The directors are supported by a team of experienced and qualified professionals

- **Proven project execution capability**

Over the past years, the entity has successfully completed many projects in Andhra Pradesh, Telangana & Karnataka and ensured timely completion of its projects. The repeat orders received from its clientele and entering into the Joint ventures with many reputed players in the construction industry validate its construction capabilities.

- **Reputed clientele**

RCIPL mainly bids for tenders floated by various government departments/entities and is mainly engaged in irrigation & roads construction. Moreover, the company also works as a sub-contractor for other contractors and also enters into a Joint venture to secure the orders.

- **Sufficient Asset Base**

Company has over the years built up a strong asset base and with sizeable asset addition every year. Company has almost all the assets required to execute the current order book. Going forward also Company continue to add the plant & machinery required to execute the orders which will be funded majorly by mix of debt & equity. The Company also gives works on sub-contract if requires to ensure timely completion of the projects.

- **Strong order book reflecting satisfactory medium-term revenue visibility**

The Company has a strong unexecuted order book of Rs.5177.0 crore as on March 31, 2019 with orders across eleven contracts which is about 3.8 times of its FY19 revenue. Majority of the orders are expected to be completed by FY22, indicating a satisfactory near to medium term revenue visibility. Moving forward the Company thrust is to secure the orders which is being funded by Asian Development Bank or World Bank, where the fund is already allocated to the projects leading to timely payments.

- **Y-o-Y improvement in revenue & EBITDA margin**

There has been a constant improvement in the performance of the Company in terms of growth in revenue and EBITDA margin since last 3 years. The revenue had increased to Rs.1364.32 crore in FY19 (FY18: Rs.1082.09 crore) with a CAGR growth of 19.4% in the last three years ended FY19. Improvement in revenue attributed to increased orders & scheduled execution of the orders. EBITDA margins is improving continuously in the last three years and improved from 4.46% in FY17 to 9.94% in FY19. The improvement is on account of achieving economies of scale and large value projects attributing to controlled logistical expenses. Almost all the contracts executed by the company have escalation clauses built-in, safeguarding its margins from input price volatility.

- **Comfortable capital structure with healthy debt protection metrics**

Company's capital structure remained comfortable as on the past three account closing dates ending FY19. The overall gearing ratio was around 0.29x in FY19 (FY18: 0.27x) driven by scheduled repayment of term loans and accretion of profit to reserves. Total debt/GCA, interest coverage & other debt protection metrics expected to remain healthy moving forward.

- **Liquidity remained strong supported by working capital management:**

The current ratio & quick ratio of the Company remains comfortable as on March 31,2019. The company cash flow from operation also remains adequate. The liquidity of the Company expected to remain Strong in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. The average utilisation of the fund based working capital limits remains at 56% in the last twelve months ended November 2019. The Company able to manage the working capital by keeping the cash conversion cycle low and use the cash credit limit to fund the short term liquidity mismatch, if any. The Company reputation also able to enjoy it high credit period from the suppliers & sub-contractors.

Key Rating Weaknesses

- **Susceptibility of operating margin to volatile input prices**

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause in most of the contracts protect the margin to an extent.

- **High Geographical & moderate Customer concentration**

The present unexecuted order book is majorly concentrated in the states of Telangana. However, the Company has adequate experience to execute projects in the state and also operating in a concentrated geography provides efficient control and reduces the logistical expense. Customer concentration remains moderate as ten customers contributed to around 68% of the total revenue in FY19.

- **Highly fragmented & competitive nature of the construction sector with significant price war**

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of concern as the same can dent the margins.

Analytical Approach

Standalone

Applicable Criteria

Rating methodology for Infrastructure companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Strong

The current ratio and quick ratio remained comfortable at 1.22x and 1.10x respectively as on March 31, 2019. The company cash flow from operation also remains adequate. The liquidity of the company expected to remain **Strong** in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. It had a cash & cash equivalent of Rs.25.08 crore (FY18: Rs.6.34 crore) as on 31 March 2019

About the Company

RCIPL started as a Sole Proprietary concern in 1991 and then reconstituted as a Partnership firm in 2003. The Partnership firm reconstituted as private limited company with a name Raghava Constructions (India) Private Limited on 12/12/2019. The entire assets & liabilities of M/s Raghava Constructions has transferred to private limited company on a going concern basis. The Company is registered as a Special class contractor with irrigation department of Government of Telangana.

Financials (Standalone)

INR Crore

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	1082.09	1364.32
EBITDA	96.92	135.63
PAT	111.27	118.68
Total Debt	66.97	87.08
Tangible Net worth	246.07	303.87
EBITDA Margin (%)	8.96	9.94
PAT Margin (%)	9.98	8.69
Overall Gearing Ratio (x)	0.27	0.29

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC	Long Term	100.00	IVR BBB- /Stable Outlook	--	--	--
2.	Non-Fund Based Facility – Letter of Credit	Short Term	66.00	IVR A3	--	--	--
3.	Non-Fund Based Facility - Bank Guarantee	Long Term/ Short Term	584.00	IVR BBB- Stable Outlook/ IVR A3	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	--	100.00	IVR BBB- / Stable Outlook
Letter of Credit	--	--	--	66.00	IVR A3
Bank Guarantee	--	--	--	584.00	IVR BBB- Stable Outlook/ IVR A3