



Press Release

Royal Infraconstru Limited

June 09, 2020

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Fund Based Facilities- Cash Credit	137.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Long term Bank Facilities- Term Loan	8.28	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Short term Non-Fund Based Facilities- Bank Guarantee	205.00	IVR A2+ (IVR A two Plus)	Reaffirmed
Total	350.28 (Rupees three hundred fifty crore and twenty eight lakh only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Royal Infraconstru Limited (RIL) continues to derive comfort from its long track record & established presence in the construction sector, highly experienced managerial & technical team with sound engineering acumen, proven project execution capability and reputed clientele. The ratings are further underpinned by its stable financial performance, comfortable capital structure and debt protection metrics along with strong order book reflecting satisfactory medium term revenue visibility. However, the ratings continues to remain tempered by its high working capital intensity, volatile input prices and highly fragmented & competitive nature of the construction sector.

Key Rating Sensitivities

Upward Factors:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure with improvement in the debt protection metrics
- Manage working capital requirements efficiently with improvement in liquidity position

Downward Factors:



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- Dip in operating income and/or profitability impacting the debt protection metrics
- Moderation in the capital structure with deterioration in overall gearing to more than 1x
- Moderation in the operating cycle leading to any deterioration in liquidity profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record & established presence in the construction sector**

Having incorporated in 1981, the company has a long track record of more than three and half decades with the current promoters managing the company since 1991. After its foray in construction activities in 2005, the company has completed a large number of construction projects and has positioned itself as one of the established players in the construction sector in Eastern India.

- **Highly experienced managerial & technical team**

Shri J.K. Jain looks after the overall operations of the company. Shri Jain has done Business Leadership Programme from IIM-Kolkata and is having an experience of about 25 years in steel and construction/infrastructure sector. He is well supported by his brother, Shri Shreyans Jain, and a well experienced management team comprising mainly highly qualified & experienced professionals.

- **Sound engineering acumen**

The company has acquired strong engineering acumen through its successful operations over the years, especially in bridge construction and completed many complex projects. Moreover, it has an extensive and experienced designing & drawing department along with many experienced engineers having rich credentials in the infrastructure/construction sector to cater to its regular requirements.

- **Proven project execution capability**

Over the years, the company has successfully completed many projects across the country for Indian Railways and other government bodies. In order to manage the projects in a better way, the company has a policy to handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele albeit high dependence on railway orders**



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Major clientele of the company includes Indian Railways (IR), various state government departments [mainly Public Works Department (PWD)/ Road Works Department (RWD)] and other Central and State Government corporations like Bihar Rajya Pul Nirman Nigam Limited, IRCON International Limited, NTPC Limited, National Projects Construction Corporation Limited etc. RL bids for tenders floated by various urban development authorities, civic bodies and other government entities across various states of India. However, the order book of RL is skewed towards IR contracts indicating a client concentration risk, on one hand, and insulation from bearish phase of the domestic construction segment, on the other.

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

The company has a strong order book position (Rs. ~1171.88 Crore as on December 31, 2019) with orders across 32 contracts which is about 3.29 times of its FY19 construction revenue (i.e. Rs. 355.92 crore). The orders are expected to be completed within next two-three years, indicating a satisfactory medium term revenue visibility.

- **Stable financial performance**

RL has maintained a stable financial performance over the past years, despite slackness in the infrastructure/ construction industry in the recent past due to its niche presence in the railway infrastructure space. As the projects undertaken by a construction company span over different accounting periods, it may be important to view the financials of the company over a period of three to four years. RL's total operating income has registered a muted CAGR of ~7.47% during FY17-19 with a y-o-y growth of about 11.53% in FY19, driven by higher orders executed during the year. RL posted an EBIDTA margin of 12.27% in FY19, an increase of 31 bps, from 11.97% in FY18. The improvement was mainly on account of better management of its operating expenses. However, the PBT margin improved from 4.38% in FY18 to 5.16% in FY19, mainly driven by decline in finance charges and increase in EBITDA level. However, the PAT Margin deteriorated in FY19 by 9 bps to 2.65% due to higher increase in depreciation. Further, in 9MFY20, RL achieved a PBT of Rs. 17.53 crore on a total operating income of Rs. 257.41 crore (RL achieved a PBT of Rs. 16.92 crore on a total operating income of Rs. 241.58 crore in 9MFY19) whereas the EBIDTA margin and the PBT margin stood at 14.68% and 6.81% respectively (15.05% and 6.98% respectively in 9MFY19). Overall the financial performance is largely stable and range bound.



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- **Comfortable capital structure and debt protection metrics**

The capital structure of the company continued to remain comfortable. The long term debt equity ratio remains stable and constant at 0.06x as on March 31, 2019. The overall gearing improved marginally from 0.68x as on March 31, 2018 to 0.57x as on March 31, 2019 on account of lesser utilization of bank borrowings as on the account closing date and accretion of profit to reserves. Moreover, the debt protection metrics of the company also improved and remained satisfactory, marked by the interest coverage ratio at 2.77x in FY19 as compared to 2.40x in FY18 and Total debt to GCA at 5.17 years in FY19 as compared to 6.97 years in FY18.

Key Rating Weaknesses

- **High working capital intensity albeit improvement in operating cycle in FY19**

Construction business, by its nature, is working capital intensive and this is more so for medium to large players executing multiple projects across varied locations. Further, a large part of working capital remained blocked in earnest money, retention money or in the form of fixed deposits as margin against required bank guarantees. To support the working capital requirement, the company is mainly relying on bank borrowings, mobilization advances (interest free) and high credit period availed from its input suppliers based on its long and established presence in the construction sector. The collection period remained moderate at about 45-80 days as most of the clients are government entities having various procedural requirements. The operating cycle though continued to remain elongated witnessed improvement from ~183 days in FY18 to ~143 days in FY19. Further, the average working capital utilisation in the last 12 months ended December, 2019, remained satisfactory at ~71%.

- **Volatile input prices**

Major raw materials used in civil/railway construction activities are steel and cement which are usually sourced from large players at proximate distances. While the input prices being generally volatile and having direct linkage with state of the economy, the cost of raw materials, as a percentage of gross billing, remained at the same level during the last two years on account of optimum use of raw materials and most of the contracts having escalation clause.



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- **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 serious concern for the users with respect to quality of output. However, RL's niche customer, Railways, witnessed insignificant storm which kept the company largely insulated from the bearish phase of infrastructure segment, as a whole.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by sufficient cushion in expected accruals in the range of ~Rs.30-34 crore as compared to debt repayment obligation in the range of ~Rs.4-5 crore during FY21-22. Further, With a gearing of 0.57 times as of March 31, 2019, the company has sufficient gearing headroom. Moreover, the company has no major near term capex plan, which imparts comfort. Besides, its average of maximum bank limit utilisation remained moderate at ~71% in the last 12 months ended on December 2019 is also indicating an adequate liquidity buffer. The company also has adequate unutilised non fund based limits to support its operations in the near term.

About the Company

Headquartered in Kolkata (West Bengal), Royal Infraconstru Limited (RL) was set up in 1981 by Shri Abhay Kr. Parakh of Raipur, Chhattisgarh, under the name of 'Royal Forgings Pvt. Ltd'. Subsequently, the company was converted into a public limited company and rechristened as its present name. Initially, the company was engaged in trading of steel and subsequently commissioned a plant for manufacturing of fish plate & elastic rail clips (for railways). The manufacturing facility of the company is located in Raipur, Chhattisgarh. It manufactures various Railway track fittings like fish plate, elastic rail clips, rail anchor, metal



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liner & various steel products used by Indian Railways (IR). Currently, the company is headed by Shri Jitendra Kumar Jain and Shri Shreyans Jain (Brothers - the nephews of Late Shri Saraogi).

Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	343.91	383.57
EBITDA	41.16	47.08
PAT	9.45	10.17
Total Debt	131.42	116.20
Tangible Net worth	192.01	202.31
EBITDA Margin (%)	11.97	12.27
PAT Margin (%)	2.74	2.65
Overall Gearing Ratio (x)	0.68	0.57

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	137.00	IVR A- /Stable Outlook	IVR A-/Stable Outlook (April 23, 2019)	-	IVR A- /Stable Outlook (March 05, 2018)
2.	Term Loan	Long Term	8.28	IVR A- /Stable Outlook	IVR A-/Stable Outlook (April 23, 2019)	-	IVR A- /Stable Outlook (March 05, 2018)
3.	Bank Guarantee	Short Term	205.00	IVR A2+	IVR A2+ (April 23, 2019)	-	IVR A2+ (March 05, 2018)



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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:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	137.00	IVR A- / Stable Outlook
Long Term Bank	-	-	May	8.28	IVR A- / Stable



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Facilities- Loan	Term			2024		Outlook
Short Term Facilities- Guarantee	Bank Bank	-	-	-	205.00	IVR A2+
Total					350.28	

