

# Infomerics Valuation And Rating Pvt. Ltd.

## Press Release

### Royal Infraconstru Limited

March 05, 2018

## Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Facilities- Term Loan	10.09	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
Long Term Fund Based Facilities- Cash Credit	154	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
Short Term Non Fund Based Facilities- Bank Guarantee	205	IVR A2+ (IVR A Two Plus)	Assigned
<b>Total</b>	<b>369.09</b>		

**Details of Facilities are in Annexure 1**

## Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Royal Infraconstru Limited (RIL) 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, strong order book reflecting satisfactory medium term revenue visibility and reputed clientele albeit high dependence on railway orders. The ratings are further underpinned by its stable financial performance and moderate debt protection metrics. However, the ratings are tempered by its high working capital intensity, volatile input prices, highly fragmented & competitive nature of the construction sector with significant price war. Profitability, gearing levels and working capital management are the key rating sensitivities.

## List of Key Rating Drivers

- Long track record & established presence in the construction sector
- Highly experienced managerial & technical team
- Sound engineering acumen
- Proven project execution capability
- Reputed clientele albeit high dependence on railway orders
- Strong order book reflecting satisfactory medium term revenue visibility

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- Stable financial performance
- Moderate debt protection metrics
- High Working Capital intensity
- Volatile input prices
- Highly fragmented & competitive nature of the construction sector with significant price war

### **Detailed Description of Key Rating Drivers**

#### *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 with proven project execution capability*

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. 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.

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

Major clientele of the company include 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.~787 Crores as on December 31, 2017) with orders across 27 contracts which is about 2.95 times of its FY17 (refers to the period from April 1 to March 31) construction revenue (i.e. Rs 266.94 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 in the railway 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 ~2.7% during FY14-FY17 with a y-o-y growth of about 2.6% in FY17. The growth remained muted mainly on account of subdued industry scenario and the company's conservative strategy in tapping orders to maintain its financial risk profile. RL posted an EBIDTA margin of 12.81% in FY17, a deterioration of 88 bps from 13.69% in FY16. The deterioration was mainly on account of rise in operational costs (mainly labour cost) in second half of FY17 due to demonitisation in November, 2016 and increase in input costs. However, the PAT margin improved from 2.65% in FY16 to 3.30% in FY17, mainly driven by decline in finance charges and increase

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in non-operating income (Rs.1.48 crore in FY17 as against Rs.0.32 crore in FY16, comprising dividends, tax refunds). The margin levels are comfortable considering the competitive nature of the industry that the company operates in. Improvement in PAT led to consequential improvement in gross cash accruals from Rs.18.76 crore in FY16 to Rs.19.50 crore in FY17. Further, in 9MFY18 (refers to the period from April 1 to December 31), RL achieved a PBT of Rs.6.61 crore on a total operating income of Rs.175.41 crore (RL achieved a PBT of Rs.2.68 crore on a total operating income of Rs.148.20 crore in 9MFY17) whereas the EBIDTA margin and the PBT margin stood at 13.66% and 3.73% respectively (14.13% and 1.78% respectively in 9MFY17). The improvement in PBT margin was driven by lower interest outgo during the period. Overall the financial performance is largely stable and range bound.

### *Moderate debt protection metrics*

The long term debt equity ratio was comfortable at 0.11x and the overall gearing ratio was acceptable at 0.84x as on March 31, 2017 considering its working capital intensive nature of operations. Moreover, the debt protection metrics of the company also remained satisfactory, marked by the interest coverage ratio at 2x in FY17 and moderate Total debt to GCA at 7.86x as on March 31, 2017. Total debt / EBITDA also remained moderate at 3.61x as on March 31, 2017. Further, the interest coverage ratio remained satisfactory at 2.04x in 9MFY18.

### *High Working Capital intensity*

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 60-80 days as most of the clients are government entities having various procedural requirements. Moreover, the operating cycle of the company has generally been, being in the vicinity of 200 days in the past three years mainly due to high inventory period as the project execution time is long. The average working capital utilisation in the last 12 months ended December 31, 2017, was about 83%.

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### *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.

### *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 & Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **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 liner & various steel products used by Indian Railways (IR). One Late Shri Rajendra Saraogi,

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a first generation entrepreneur, acquired the company in 1991. Under his leadership, the company gradually enhanced its manufacturing capacity of fish plate & elastic rail clips. In 2005, RL entered in construction activity comprising construction & installation of railway tracks, bridges, pavements, railway road over bridges, etc. mainly for Indian Railways. From 2006, RL also commenced flash butt welding services (involving repair of railway tracks). Currently, the company is into manufacturing and trading of railway products and construction of projects under EPC for Indian Railways and state PWDs (mainly for West Bengal & Tripura) encompassing construction & installation of railway tracks (ballasted and ballastless), bridges, pavements, railway road over bridges, railway road under bridges, earthwork, land development, road-works, pipelines, structural, construction camps and irrigation, etc. The company has, in place, ISO 9001:2008 accreditations. Furthermore, the manufactured items are approved by the Research Design and Standards Organisation (RDSO) of Indian Railways. RL is operating in various states like West Bengal, Orissa, Jharkhand, Madhya Pradesh, Bihar, Uttar Pradesh, etc. It also has small presence overseas for its manufactured steel products with destinations being Africa, Middle East, South East Asia and Europe. Apart from direct contracts, the company also participates in tenders and executes orders through joint ventures (JV) with other companies. 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	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	323.66	332.12
EBITDA	44.32	42.53
PAT	8.58	10.60
Total Debt	151.31	153.35
Tangible Net worth	171.66	182.44
EBITDA Margin (%)	13.69	12.81
PAT Margin (%)	2.65	3.30
Overall Gearing Ratio (x)	0.88	0.84

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Nil

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### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Debt - Term Loan	Long Term	10.09	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)	--	--	--
2.	Long Term Fund Based Limits- Cash Credit	Long Term	154	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)			
3.	Short Term Non Fund Based Facilities- Bank Guarantee	Short Term	17.00	IVR A2+ (IVR A Two Plus)			

**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](http://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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for

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positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt - Term Loan	Present Outstanding	Varied	Ending on May, 2024	10.09	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)
Long Term Fund Based Limits- Cash Credit	-	-	-	154	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)
Short Term Non Fund Based Facilities- Bank Guarantee	--	--	--	205	IVR A2 + (IVR A Two Plus)