



Press Release

Rachana Infrastructure Limited

July 05, 2024

Ratings

| Facilities | Amount (Rs. Crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|-----------------------------|---|--|--|---|--|
| Long-Term Bank Facility | 0.50 | IVR BBB-; Stable (IVR Triple B Minus with Stable outlook) | IVR BB; Negative ISSUER NOT COOPERATING (IVR Double B with Negative Outlook, ISSUER NOT COOPERATING) | Upgraded and removed from ISSUER NOT COOPERATING category | Simple |
| Short-Term Bank Facility | 18.50 | IVR A3 (IVR A Three) | IVR A4; ISSUER NOT COOPERATING (IVR A Four, ISSUER NOT COOPERATING) | Upgraded and removed from ISSUER NOT COOPERATING category | Simple |
| Short-Term Bank Facility | 8.50 | IVR A3 (IVR A Three) | - | Assigned | Simple |
| Total | 27.50 (INR Twenty seven crore and fifty lakh only) | | | | |

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has removed the rating assigned to the bank facilities of Rachana Infrastructure Limited (RIL) from Issuer Not Cooperating category based on adequate information received from the entity to review its rating.

The upgrade in the ratings is driven by growth in its scale of operation in FY24 (FY refers to the period from April 01 to March 31) coupled with its satisfactory capital structure with comfortable debt protection metrics. Further, the ratings continue to derive comfort from its experienced promoters and proven project execution capability with esteemed client base. However, these rating strengths are constrained by RIL's modest scale of operation with exposure to geographical concentration risk, susceptibility of profit margins to input price



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fluctuation along with exposure to intense competition. The outlook is expected to remain stable considering the growth in scale of operation backed by better execution of pending orderbook and support by the experienced promoters.

Key Rating Sensitivities:

Upward factors

- Growth in operating income with improvement in operating margin and net cash accruals on a sustained basis
- Sustenance of the capital structure with overall gearing to remain below 1x and/or improvement in debt protection metrics with interest coverage to improve above 4x
- Improvement in operating cycle leading to improvement in liquidity

Downward Factors

- Moderation in operating income and/or moderation in profitability leading to reduction in net cash accruals impacting the debt protection metrics with moderation in interest coverage ratio to below 2x
- Moderation in capital structure and/or deterioration in TOL/TNW to over 1.5x
- Stretch in the working capital cycle driven by stretched receivables impacting the financial risk profile, particularly liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoters**

Mr. Girish Kumar Raval, the one of the promoters and the managing director of the company is having more than 40 years of experience in the infrastructure segment is looking after overall business of the company. He along with the other experienced directors and the key managerial personal are critical for the future growth of the company.

- **Proven project execution capability with esteemed client base**

RIL has been in the infrastructure segment for more than two decades and over the past years, the entity has successfully completed many projects and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities. Further, company has an esteemed customer base of various government department such as Public Works Department of Madhya Pradesh, Road and Building



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Department of Gujarat State, Madhya Pradesh Road Development Corporation, Power Grid Corporation of India, Gujarat Minerals Development Corporation, Road Construction Department of Jharkhand along with few private clients like Shreeji Infraspace Pvt, ONGC Petro Addition Ltd. etc. which mitigate the counterparty risk as well. However, the top five customers of the company contributed ~71% of RIL's total revenue in FY24, indicating client concentration of risk.

- **Growth in scale of operation albite moderation in operating margin**

The total operating income of RIL has witnessed a steady growth over the past few years as the topline increased from steadily from ~Rs.64 crore in FY22 to ~Rs.92 crore in FY24 backed by better execution of work orders coupled with increase in revenue from quarry and trading revenue which attributed ~24% of FY24 total revenue. Despite improvement in scale in operation, the operating margin of RIL has moderated due to higher sub-contracting expense and rise in raw material cost yet stood comfortable at 9.03% in FY24 (11.29% in FY22.). However, backed by increase in absolute EBITDA along with reduced finance cost, PAT margin has improved and stood satisfactory at 3.86% in FY24 against 3.34% in FY22. Aided by increase in profitability, NCA of the company has also improved and stood at Rs.5.90 crore in FY24 which was sufficient to meet the repayment obligation.

- **Satisfactory capital structure with comfortable debt protection metrics**

The capital structure of the entity has remained satisfactory as on the past three account closing dates. As on March 31, 2024, RIL has a comfortable net worth (ATNW) of Rs.72.29 crore. The company has relatively low reliance in external borrowings. The overall gearing and TOL/ATNW has improved and stood comfortable at 0.16x and 0.45x respectively as on March 31, 2024, against 0.69x and 1.68x as on March 31, 2022. Backed by improved EBITDA, and reduced finance cost, interest coverage has improved and stood at 3.23x in FY24 against 1.84x in FY22. Total debt to EBITDA and Total debt to NCA also improved and remains comfortable at 1.38x and 1.96 years respectively as on March 31, 2024 as against 3.06x and 5.11x years respectively as on March 31, 2022.

Key Rating Weaknesses:

- **Modest scale of operation**

The scale of operation of the company though improved over the past three fiscals remained modest at ~Rs.93 crore in FY24. Modest scale of operation of the company in construction sector restricts the financial flexibility of the company to an extent.



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- **Intense competition in a fragmented industry with a tender-based contract-awarding system restricts margins**

The civil construction industry is intensely competitive on account of its fragmented nature along with the presence of several players. This coupled with the lowest-bidding-business-procurement structure keeps the margins of all players, including RIL under check. Moreover, the company is also exposed to risks inherent in the construction sector, such as a slowdown in new order inflows and the risks of delays in execution. Operations are also vulnerable to price variations in key raw materials. However, the risk is largely mitigated in the case of contracts that include an escalation clause.

- **Susceptibility of profit margins to input price fluctuations**

The company's profit margins are exposed to raw material (mainly steel, cement, sand and other metals) price fluctuations. Nonetheless, the presence of a price escalation clause in most of its contracts mitigates the risk to an extent. The firm passes on the increase in the raw material prices to its customers to an extent but with a lag.

- **Moderate orderbook position with geographical concentration risk**

The unexecuted order book of RIL as on March 31, 2024, stood at ~Rs.194.19 crore which is ~2.09 times of its FY24 revenue. The projects are expected to be executed in coming 1-2 years provides moderate near to medium term revenue visibility for the company. However, majority of the orders are restricted with Madhya Pradesh and Gujrat leading to geographical concentration risk.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Criteria of assigning rating outlook](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on complexity](#)

[Policy on withdrawal of ratings](#)

Liquidity: Adequate



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RIL has generated gross cash accrual of Rs.5.90 crore in FY24 against its debt repayment obligation of Rs.1.80 crore. RIL is expecting an improvement in its order book and driven by proper and timely execution of the orders, the company is expected to generate a steady cash and the liquidity position of the company would remain adequate in the near term. Further, the comfortable capital structure coupled with satisfactory current ratio of 3.72x as on March 31,2024 imparts sufficient liquidity buffer.

About the Company

Gujrat based Rachana Infrastructure Limited (RIL erstwhile Rachana Construction Company) was incorporated in June 2001 as a public limited company by Mr. Girish Bhai Raval, the promoter and Managing Director of the company. RIL is a mid-size registered class AA contractor engaged in the business of civil and infrastructure segment. Road and highway construction projects play a major role in the core business of the company. The company has been listed in the NSE SME category on 10th June 2022.

Financials of Rachana Infrastructure Limited (Standalone):

| For the year ended* / As On | (Rs. crore) | |
|--------------------------------------|-------------|------------|
| | 31-03-2023 | 31-03-2024 |
| | Audited | Audited |
| Total Operating Income | 64.79 | 92.75 |
| EBITDA | 7.30 | 8.37 |
| PAT | 2.26 | 3.63 |
| Total Debt | 13.60 | 11.54 |
| Tangible Net worth | 77.79 | 81.24 |
| Tangible Net worth (Adjusted) | 68.84 | 72.29 |
| EBITDA Margin (%) | 11.26 | 9.03 |
| PAT Margin (%) | 3.47 | 3.86 |
| Overall Gearing Ratio (x) (Adjusted) | 0.20 | 0.16 |
| Interest Coverage | 2.58 | 3.23 |

**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/ | Current Rating (Year 2024-25) | Rating History for the past 3 years |
|--------|---------------------|-------------------------------|-------------------------------------|
|--------|---------------------|-------------------------------|-------------------------------------|



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| . | Facilities | Type | Amount outstanding (Rs. Cr.) | Rating | Date(s) & Rating(s) assigned in 2024-25 (May 22, 2024) | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 (Mar 23, 2023) |
|----|----------------|------------|------------------------------|-----------------|--|---|--|
| 1. | Cash Credit | Long Term | 0.50 | IVR BBB-/Stable | IVR BB/ Negative, ISSUER NOTCOOPERATING* | - | IVR BB+/Stable |
| 2. | Bank Guarantee | Short Term | 18.50 | IVR A3 | IVR A4, ISSUER NOTCOOPERATING* | - | IVR A4+ |
| 3 | Bank Guarantee | Short Term | 8.50 | IVR A3 | - | - | - |

** Issuer Not Cooperating based on best available information*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Instrument/Facility Details

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Cr) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------|---------------------------|--------------------------|
| Long Term Fund Based Limits –Cash Credit | - | - | - | 0.50 | IVR BBB-/ Stable |
| Short Term Non Fund Based Limits –Bank Guarantee | - | - | - | 27.00 | IVR A3 |

Annexure 2: Facility wise lender details: [As per attached annexure](#)

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/combined analysis: Not Applicable

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