



Press Release

Royal Infraconstru Limited

June 20, 2024

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	238.74 (reduced from 241.70 crore)	IVR A; Stable (IVR Single A with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	490.00	IVR A1 (IVR A One)	Reaffirmed	Simple
Total	728.74 (Rs. Seven hundred twenty-eight crore and seventy-four lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Royal Infraconstru Limited (RIL) continues to consider its comfortable capital structure and debt protection metrics coupled with stable business performance despite moderation in total operating income and profitability in FY24 (FY refers to the period from April 1 to March 31). Further, the ratings also continue to derive comfort from its long track record & established presence in the construction sector, strong order book reflecting satisfactory medium-term revenue visibility, highly experienced managerial & technical team with sound engineering acumen, proven project execution capability and reputed clientele base of the company albeit high dependence on railway orders. Further, these rating strengths continues to remain partially offset by high working capital intensity of the business albeit improvement in operating cycle, susceptibility of profitability to volatile input prices and exposure to intense competition in a fragmented industry with a tender-based contract-awarding system which restricts margins.

Rating Sensitivities

Upward factors

- Growth in scale of operations with improvement in profitability with EBITDA margin at over 12% on a sustained basis.
- Sustenance of the capital structure with improvement in the debt protection metrics.
- Effective management of working capital leading to reduction in its operating cycle and 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 1.5x and/or moderation in interest coverage ratio to below 3x.
- Moderation in the operating cycle leading to any deterioration in liquidity profile

Detailed Description of Key Rating Drivers

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

Mr. J.K. Jain looks after the overall operations of the company. Mr. Jain has done Business Leadership Programme from IIM-Kolkata and is having an experience of more than 25 years in steel and construction/infrastructure sector. He is well supported by his brother, Mr. 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. 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

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,



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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 RIL 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.

Stable business performance

The business performance of the company continued to remain stable in FY24 despite moderation in total operating income and profitability. The total operating income (TOI) of the company has moderated from Rs.924.51 crore in FY23 to Rs.903.00 crore in FY24 due to impacted revenue from its Sikkim projects as there was a glacial lake outburst in Sikkim in October 2023 which led to the collapse of Teesta III hydroelectric dam, which had led to a slowdown in two of its big projects of Sikkim. With decline in operating income, EBITDA margin and PAT margin also moderated from 8.83% and 3.14% respectively in FY23 to 7.63% and 2.71% respectively in FY24.

Strong order book reflecting satisfactory medium-term revenue visibility

The company has a strong order book position of Rs.2000.90 crore as on March 31, 2024 which is about 2.22 times of its FY24 revenue (i.e., Rs 903.00 crore). The orders are expected to be completed within next two-three years, indicating a satisfactory medium term revenue visibility.

Comfortable capital structure and debt protection metrics

The capital structure of the company continued to remain comfortable marked by satisfactory leverage ratios. The long-term debt equity ratio remains comfortable at 0.15x as on March 31, 2024, as against 0.22x as on March 31, 2023. The overall gearing improved to 0.56x as on March 31, 2024, as against 0.67x as on March 31, 2023 backed by scheduled repayment of term loan and accretion of profit to reserves. Total indebtedness of the company remained comfortable at 1.05x as on March 31, 2024. Moreover, the debt protection metrics of the company continues to remain satisfactory albeit moderation, marked by interest coverage ratio at 2.69x in FY24 as compared to 3.31x in FY23. The moderation in interest coverage is due to increase in interest rates. Also, both Total debt to EBITDA and Total debt to NCA stood satisfactory at 2.45x and 3.99 years respectively as on March 31, 2024.

Key Rating Weaknesses



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High working capital intensity albeit improvement in operating cycle

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 improved in FY24 to 19 days (23 days in FY23). Further, the average working capital utilisation in 12 months ended February 2024, remained moderate at ~77% and BG utilization also remained moderate at ~71% in the last 12 months ended February 2024.

Susceptibility of profitability to 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 and the prices of which are generally volatile in nature. However, presence of escalation clause in most of its contracts protects its profit margin to an extent though with a time lag.

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 RL 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.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for rating outlook](#)

[Rating Methodology for Infrastructure Companies](#)

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

[Criteria on complexity](#)

[Policy of default recognition](#)

Liquidity: Adequate



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The liquidity position of the company is expected to remain comfortable marked by its expected adequate gross cash accruals of Rs.48.72 crore to Rs.57.06 crore against its debt repayment obligations of Rs.11.83 crore- Rs.17.69 crore during FY25-FY27. The company has earned a gross cash accrual of Rs.42.16 crore in FY24 against debt repayment obligation of Rs.21.29 crore. Besides, its average bank limit utilisation at ~77% in the 12 months ended February 2024 is also indicating an adequate liquidity buffer. The company also has adequate unutilised non-fund-based limits with utilisation remained moderate at ~71% in the 12 months ended February 2024 to support its operations in the near term.

About the Company

Royal Infraconstru Limited (RIL) was set up in 1981 by Mr. 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 to 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 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).

Financials (Standalone):

(Rs. crore)		
For the year ended* / As On	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	924.51	903.00
EBITDA	81.61	68.87
PAT	29.15	24.65
Total Debt	187.13	168.39
Tangible Net worth	277.58	301.75
EBITDA Margin (%)	8.83	7.63
PAT Margin (%)	3.14	2.71
Overall Gearing Ratio (x)	0.67	0.56
Interest Coverage Ratio (x)	3.31	2.69

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					May 17, 2023	March 14, 2023	March 01, 2022
1	Cash Credit	Long Term	217.00	IVR A; Stable	IVR A; Stable	IVR A; Stable	IVR A-; Positive
2	Term Loan/GECL	Long Term	21.74	IVR A; Stable	IVR A; Stable	IVR A; Stable	IVR A-; Positive
3	Bank Guarantee	Short Term	490.00	IVR A1	IVR A1	IVR A1	IVR A2+

Name and Contact Details of the Rating Analyst:

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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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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	-	-	-	217.00	IVR A; Stable
Long Term Bank Facilities – Term Loan/GECL	-	-	January 2028	21.74	IVR A; Stable
Short Term Bank Facilities – Bank Guarantee	-	-	-	490.00	IVR A1

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Royal-Infraconstru-jun24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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.