



## Press Release

### Royal Infraconstru Limited

March 01, 2022

#### Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	161.70 (enhanced from Rs. 145.28 crore)	IVR A-/Positive (IVR Single A Minus with Positive Outlook)	Reaffirmed	Simple
Short Term Bank Facility	290.00	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
<b>Total</b>	<b>451.70</b> <b>(Four Hundred Fifty</b> <b>One crore And</b> <b>Seventy Lakhs)</b>			

**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 improved financial performance in 9MFY22, comfortable capital structure and debt protection metrics along with strong order book reflecting satisfactory medium term revenue visibility. However, these rating strengths continue to remain tempered by its high working capital intensity, susceptibility of profitability volatile input prices and presence in highly fragmented & competitive construction sector. Infomerics believes that RL will maintain a 'Positive' outlook over the medium term on account of its established business profile driven by its strong customer profile and healthy order book position leading to improvement in financial performance in the near term.

#### Key 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.



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- Manage working capital requirements efficiently with improvement in liquidity position and reduction in its operating cycle.

### **Downward Factors**

- Dip in operating income and/or moderation in 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 and TOL/TNW going above 1.
- Moderation in the operating cycle leading to 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**

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 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. Further, 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



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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, 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.1907.73 Crores as on December 31,2021). This orders also includes Rs.191.42 crore from IRCON and MRIDC as per the new LOA. The pending work order amounting Rs. 1907.73 crore which is about 4.55 times of its FY21 construction revenue (i.e. Rs 418.82 crore). The orders are expected to be completed within next two-three years, indicating a satisfactory medium term revenue visibility. Further, the order book is now well diversified across various states. Further, the company has bagged two railway projects in North-eastern part of the country which is expected to boost its profitability going forward as profit margin in these projects are high.

- **Improved financial performance in 9MFY2**

The total operating income of the company has improved ~48% y-o-y during 9MFY22 and the company has achieved TOI of Rs.341.19 crore. In line with the topline, the absolute EBITDA has witnessed a growth of ~32% over 9MFY20 and stood at Rs.40.48 crore. However, the EBITDA margin has moderated to 11.86% in 9MFY22 against 13.35% of 9MFY21 whereas the PAT margin has improved from 3.79% to 4.38% in FY22.

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

The long-term debt equity ratio though deteriorated marginally, remains comfortable at 0.16x as on December 31, 2021, from 0.10x as on March 31, 2021. The overall gearing also declined to 0.64x as on December 31, 2021. Moreover, the debt protection metrics of the company remained satisfactory, marked by interest coverage ratio of 4.22x in 9MFY22 as compared to



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3.39x in FY21. However, both TOL/TWN and Total debt to GCA has moderated and stood at 1.09x and 6.27 years respectively against 0.68x and 3.29 years in FY21 driven by significant infusion of both secured and unsecured loan and short-term borrowings during 9MFY22.

### **Key Rating Weaknesses**

- **High working capital intensity albeit improvement in operating cycle during 9MFY22**

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 (53 days as of December 31, 2021) as most of the clients are government entities having various procedural requirements. The operating cycle though continued to remain elongated from ~147 days in FY21 to 211 days in 9MFY22. Further, the average working capital utilisation in 9 months ended December, 2021, remained satisfactory at ~58% and BG utilization also remained moderate at ~73% in the last 9 months ended December 31, 2021.

- **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. The sudden rise in raw material prices has dented the profitability of the company in FY21 and in current fiscal as well. However, presence of escalation clause in most of its contracts protects its profit margin to an extent though with a time lag.

- **Presence in highly fragmented & competitive construction sector**

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities which restricts the profitability of the industry participants to an extent.

**Analytical Approach: Standalone**

**Applicable Criteria:**



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[Rating Methodology for Infrastructure Companies](#)

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

### **Liquidity – Adequate**

The liquidity position of the company is expected to remain adequate in the near to medium term driven by expected sufficient cushion in its accruals in the range of ~Rs.32.59-47.64 crore as compared to debt repayment obligation in the range of ~Rs.5.92-9.81 crore during FY22-24. During the last 9 month ended December 31, 2021, it has already generated cash of Rs. 25.01 crore. Further, with a gearing of 0.64 times as on December 31, 2021, the company has sufficient gearing headroom. Moreover, the company has no major near term capex plan and expected to realise part of its earnest money deposits through submission of bank guarantees, which imparts comfort. Besides, its average of maximum bank limit utilisation remained moderate at ~53% in the 12 months ended on March 2021 is also indicating an adequate liquidity buffer. The company also has adequate unutilised non-fund-based limits with utilisation remained moderate at ~73% in the 9 months ended on December 2021 to support its operations in the near term. The company has not availed any Covid related moratorium or bank facilities from its bankers.

### **About the Company**

Headquartered in Kolkata (West Bengal), Royal Infraconstru Limited (RL) 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 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). Currently, the company is headed by Mr. Jitendra Kumar Jain and Mr. Shreyans Jain (Brothers - the nephews of Late Mr. Saraogi).

### **Financials: Standalone**

For the year ended* / As On	(Rs. crore)	
	31-03-2020	31-03-2021
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	387.10	421.11
EBITDA	46.10	45.89
PAT	16.20	14.58





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For the year ended* / As On	31-03-2020	31-03-2021
Total Debt	123.10	86.11
Tangible Net worth	218.31	229.27
EBITDA Margin (%)	11.91	10.90
PAT Margin (%)	4.17	3.45
Overall Gearing Ratio (x)	0.56	0.38

\*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating		Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loans	LT	24.70 (Enhanced from 8.28 crore)	IVR A- /Positive	IVR A- /Positive (August 23, 2021)	IVR A- /Stable Outlook (August 11, 2020)	IVR A- /Stable Outlook (June 09, 2020)	IVR A- /Stable Outlook (April 23, 2019)
2.	Cash Credit	LT	137.00	IVR A- /Positive	A- /Positive (August 23, 2021)	IVR A- /Stable Outlook (August 11, 2020)	IVR A- /Stable Outlook (June 09, 2020)	IVR A- /Stable Outlook (April 23, 2019)
3.	Bank Guarantee	ST	290.00	IVR A2+	IVR A2+ (August 23, 2021)	IVR A2+ (August 11, 2020)	IVR A2+ (June 09, 2020)	IVR A2+ (April 23, 2019)

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About Infomerics:



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Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	24.70	IVR A-/Positive
Cash Credit	-	-	-	137.00	IVR A-/Positive
Bank Guarantee	-	-	-	290.00	IVR A2+

**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-infra-mar22.pdf>



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**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](http://www.infomerics.com).