



Press Release

Royal Infraconstru Limited

March 14, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	161.70	IVR A; Stable (IVR Single A with Stable Outlook)	Revised from IVR A-; Positive (IVR Single A Minus with Positive Outlook)	Simple
Short Term Bank Facilities	290.00	IVR A1 (IVR A One)	Revised from IVR A2+ (IVR A Two Plus)	Simple
Total	451.70 (Rupees four hundred and fifty one crore and seventy lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Royal Infraconstru Limited (RIL) is primarily driven by continuous improvement in its financial performance in FY22 and in 9MFY23 marked by improvement in its total operating income and profitability. Further, the ratings also consider its comfortable capital structure and satisfactory debt protection metrics. Further, the ratings also continue to derive comfort from its long track record & established presence in the construction sector, highly experienced managerial & technical team, sound engineering acumen, proven project execution capability and reputed clientele 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 presence in highly fragmented & competitive construction sector.

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



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Downward Factors

- 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

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**

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.



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- **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/companies. 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.1923.37 Crores as on December 31,2022). The pending work order amounting Rs. 1923.37 crore which is about 3.18 times of its FY22 revenue (i.e., Rs 605.10 crore). The orders are expected to be completed within next two-three years, indicating a satisfactory near to medium term revenue visibility.

- **Improved financial performance in FY22 and in 9MFY23**

The total operating income of the company has improved by ~44% y-o-y during FY22 to Rs.605.10 crore from Rs. 421.11 crore driven by higher orders executed during the year. In line with the topline, the absolute EBITDA has witnessed a growth of 21.90% over FY22 as it stood at Rs.55.94 crore. The EBITDA margin of the company witnessed moderation in FY22 mainly due to increase in raw material (mainly steel and cement) prices. This apart, Price variation claim worth Rs 12 crore of FY22 was accounted in FY 23, which has resulted in lower absolute EBITDA and margins in FY22. RL posted an EBITDA margin of 9.24% in FY22 moderated from 10.90%. Despite moderation in EBITDA margin, PAT margin remained stable at 3.49% in FY22 as compared to 3.45% in FY21. During 9MFY23, the company has achieved a revenue of ~Rs.642 crore.

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

The capital structure of the company continues to remain comfortable as on March 31,2022. The long-term debt equity ratio remains comfortable at 0.27x as on March 31, 2022, as against 0.10x as on March 31, 2021. The overall gearing though moderated to 0.79x as on March 31, 2022 as against 0.38x as on March 31, 2021 continues to remain comfortable. Moreover, the debt protection metrics of the company continues to remain satisfactory, marked by interest coverage ratio of 3.64x in FY22 as compared to 3.36x in FY21. Further, both TOL/TNW and



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Total debt to GCA also stood satisfactory at 1.26x and 5.95 years respectively as on March 31, 2022.

Key Rating Weaknesses

- **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 remained moderate at about 45-60 days (33 days as of March 31, 2022) as most of the clients are government entities having various procedural requirements. Further, the average working capital utilisation in 12 months ended January 31, 2023, remained moderate at ~81% and BG utilization also remained moderate at ~89% in the last 12 months ended January 31, 2023.

- **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 FY22 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:

[Rating Methodology for Infrastructure Companies](#)

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

[Criteria of assigning rating outlook](#)

Liquidity: Adequate



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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.54.90-74.90 crore as compared to debt repayment obligation in the range of ~Rs.11.91-17.59 crore during FY23-25. Besides, its average bank limit utilisation remained moderate at ~81% in the 12 months ended on January 2023 is also indicating an adequate liquidity buffer. The company also has adequate unutilised non-fund-based limits with utilisation remained moderate at ~89% in the 12 months ended on January 2023 to support its operations in the near term.

About the Company

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 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 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).

Financials of Royal Infraconstru Limited (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	421.11	605.10
EBITDA	45.89	55.94
PAT	14.58	21.18
Total Debt	86.11	198.08
Tangible Net worth	229.27	250.30
EBITDA Margin (%)	10.90	9.24
PAT Margin (%)	3.45	3.49
Overall Gearing Ratio (x)	0.38	0.79
Interest Coverage Ratio (x)	3.36	3.64

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

(Rs. Crore)



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	137.00	IVR A; Stable Outlook	IVR A-; Positive Outlook (March 01, 2022)	IVR A-; Stable Outlook (August 23, 2021)	IVR A-; Stable Outlook (August 11, 2020)
2.	Term Loan	Long Term	24.70	IVR A; Stable Outlook	IVR A-; Positive Outlook (March 01, 2022)	IVR A-; Stable Outlook (August 23, 2021)	IVR A-; Stable Outlook (August 11, 2020)
3.	Bank Guarantee	Short Term	290.00	IVR A1	IVR A2+ (March 01, 2022)	IVR A2+ (August 23, 2021)	/IVR A2+ (August 11, 2020)

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About Infomerics Ratings:

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

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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 Facilities – Term Loan	-	-	May 2024	24.70	IVR A; Stable Outlook
Short Bank Facilities – Bank Guarantee	-	-	-	290.00	IVR A1

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-RoyalInfraconstru-mar23.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.