



Press Release

Royal Infraconstru Limited

August 23, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long term Fund Based Facilities- Cash Credit	137.00	IVR A-/Positive Outlook (IVR Single A Minus with Positive Outlook)	Reaffirmed with revision in outlook
Long term Bank Facilities- Term Loan	8.28	IVR A-/Positive Outlook (IVR Single A Minus with Positive Outlook)	Reaffirmed with revision in outlook
Short term Non-Fund Based Facilities- Bank Guarantee	290.00	IVR A2+ (IVR A two Plus)	Reaffirmed
Total	435.28 (Rupees four hundred thirty five and twenty eight lakhs only)		

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 stable financial performance, 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, volatile input prices and presence in highly fragmented & competitive construction sector. The outlook has been revised to positive based on expected improvement in its scale of operations coupled with expected improvement in profitability leading to improvement in debt protection metrics and liquidity in the near term.

Key Rating Sensitivities

Upward Factors:

- Growth in scale of operations with improvement in profitability 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



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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 1x
- 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.

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



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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 near to medium term revenue visibility**

The company has a strong order book position (Rs.~1917.48 Crore as on March 31, 2021) with orders across 51 contracts which is about 4.58 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. 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.

- **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 y-o-y growth of about 9% in FY21, driven by higher orders executed during the year. RL's profitability though moderated continued to remain stable in FY21. RL posted an EBIDTA margin of 10.90% in FY21, with a decrease of 101 bps, from 11.91% in FY20. PAT margin moved in line with EBITDA margin and declined by 72 bps to 3.45% in FY21 from 4.17% in FY20. During Q1FY22, the company has earned a satisfactory revenue of ~Rs.111 crore.

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

The capital structure of the company continued to remain comfortable. The long-term debt equity ratio, though deteriorated marginally, remains comfortable at 0.10x as on March 31, 2021 as against 0.07x as on March 31, 2020. However, the overall gearing improved from 0.56x as on



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March 31, 2020 to 0.38x as on March 31, 2021 on account of lesser utilization of bank borrowings as on account closing date and accretion of profit to reserves. Moreover, the debt protection metrics of the company also improved and remained satisfactory, marked by the interest coverage ratio of 3.36x in FY21 as compared to 3.06x in FY20 and moderate Total debt to GCA at 3.29 years in FY21 as compared to 4.77 years in FY20. Infomerics expects that the capital structure of the company will continue to remain comfortable in the near term.

Key Rating Weaknesses

- **High working capital intensity albeit improvement in operating cycle in FY21**

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 as most of the clients are government entities having various procedural requirements. The operating cycle though continued to remain elongated witnessed improvement from ~147 days in FY20 to ~124 days in FY21. Further, the average working capital utilisation in the last 12 months ended March, 2021, remained satisfactory at ~53%.

- **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. 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 Position: 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.35.03-47.64 crore as compared to debt repayment obligation in the range of ~Rs.5.92-7.00 crore during FY22-24. Further, with a gearing of 0.38 times as on March 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 last 12 months ended in March 2021 is also indicating an adequate liquidity buffer. The company also has adequate unutilised non-fund-based limits 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)

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	387.10	421.11
EBITDA	46.10	45.89
PAT	16.20	14.58
Total Debt	123.10	86.11
Tangible Net worth	218.31	229.27



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For the year ended* / As On	31-03-2020	31-03-2021
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: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	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.	Cash Credit	Long Term	137.00	IVR A- /Positive Outlook	IVR A-/Stable Outlook (August 12, 2020)	IVR A-/Stable Outlook (June 09, 2020)	IVR A-/Stable Outlook (April 23, 2019)
2.	Term Loan	Long Term	8.28	IVR A- /Positive Outlook	IVR A-/Stable Outlook (August 12, 2020)	IVR A-/Stable Outlook (June 09, 2020)	IVR A-/Stable Outlook (April 23, 2019)
3.	Bank Guarantee	Short Term	290.00	IVR A2+	IVR A2+ (August 12, 2020)	IVR A2+ (June 09, 2020)	IVR A2+ (April 23, 2019)

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About Infomerics:



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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 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 Bank Facilities- Cash Credit	-	-	-	137.00	IVR A- / Positive Outlook
Long Term Bank Facilities- Term Loan	-	-	May 2024	8.28	IVR A- / Positive Outlook
Short Term Bank Facilities- Bank Guarantee	-	-	-	290.00	IVR A2+
Total				435.28	

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Royal-Infra-lenders-23aug21.pdf>

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



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Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Term Loan	Simple
3.	Bank Guarantee	Simple

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.

