

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Royal Infraconstru Limited

April 23, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Facilities- Term Loan	8.28	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Long Term Fund Based Facilities- Cash Credit	137	IVR A - / Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Short Term Non Fund Based Facilities- Bank Guarantee	205	IVR A2+ (IVR A Two Plus)	Reaffirmed
Total	350.28		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of ratings to the bank facilities of Royal Infraconstru Limited (RIL) 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, strong order book reflecting satisfactory medium term revenue visibility and reputed clientele. The ratings are further underpinned by its stable financial performance and moderate debt protection metrics. However, the ratings are tempered by its high working capital intensity, volatile input prices, highly fragmented & competitive nature of the construction sector. Profitability, gearing levels and working capital management are the key rating sensitivities.

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

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projects and has positioned itself as one of the established players in the construction sector in Eastern India.

Highly experienced managerial & technical team

Shri J.K. Jain looks after the overall operations of the company. Shri J.K. Jain has done Business Leadership Programme from IIM-Kolkata and is having an experience of about 25 years in steel and construction/infrastructure sector. He is well supported by his brother, Shri 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. Over the years, the company has successfully completed many projects across the country for Indian Railways and other government bodies

Reputed clientele

Major clientele of the company include 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.

Strong order book reflecting satisfactory medium term revenue visibility

The company has a strong order book position (Rs.~1242 Crores as on December 31, 2018) with orders across 26 contracts which is about 3.95 times of its FY18 construction revenue (i.e. Rs 314.18 crore). The orders are expected to be completed within next two-three years, indicating a satisfactory medium term revenue visibility.

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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. RL's total operating income has registered a muted CAGR of ~3.1% during FY16-18 with a y-o-y growth of about 3.5% in FY18. RL posted an EBIDTA margin of 11.97% in FY18, a deterioration of 84 bps from 12.81% in FY17. The deterioration was mainly on account of rise in operational costs. However, the PBT margin improved from 3.45% in FY17 to 4.38% in FY18, mainly driven by decline in finance charges. Further, in 9MFY19, RL achieved a PBT of Rs.16.92 crore on a total operating income of Rs.241.58 crore (RL achieved a PBT of Rs.4.79 crore on a total operating income of Rs.163.90 crore in 9MFY18) whereas the EBIDTA margin and the PBT margin stood at 15.05% and 6.98% respectively (14.73% and 2.88% respectively in 9MFY18).

Moderate debt protection metrics

The long term debt equity ratio improved from 0.11x in FY17 to 0.06x in FY18 led by scheduled repayment of debt and accretion of profit to reserves. The overall gearing too improved from 0.84x in FY17 to 0.68x 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 remained satisfactory, marked by the interest coverage ratio at 2.40x in FY18 and moderate Total debt to GCA at 6.97x as on March 31, 2018.

Key Rating Weaknesses

High Working Capital intensity

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. 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 60-80 days as most of the clients are government entities having various procedural requirements. Moreover, the operating cycle of the company has generally been, being in the vicinity of 200 days in the past three years mainly due to high inventory period as the project execution time is long.

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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. While the input prices being generally volatile and having direct linkage with state of the economy, the cost of raw materials, as a percentage of gross billing, remained at the same level during the last two years on account of optimum use of raw materials and most of the contracts having escalation clause.

Highly fragmented & competitive nature of the construction sector

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. However, RL's niche customer, Railways, witnessed insignificant storm which kept the company largely insulated from the bearish phase of infrastructure segment, as a whole.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

RL's liquidity profile seems satisfactory in the short to medium term. Debt protection parameters are comfortable. The long term debt of the company, on overall basis, is minimal and hence, debt servicing obligations are majorly on interest on working capital borrowings. The company has about 25% of working capital limit unutilised. The lower utilisation of the available limits indicates available cushion for liquidity.

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About the Company

Headquartered in Kolkata (West Bengal), Royal Infraconstru Limited (RL) was set up in 1981 by Shri 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 Shri Jitendra Kumar Jain and Shri Shreyans Jain (Brothers - the nephews of Late Shri Saraogi).

Financials (Standalone):

(Rs. Crore)

For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	332.12	343.91
EBITDA	42.53	41.16
PAT	10.60	9.45
Total Debt	153.35	131.42
Tangible Net worth	182.44	192.01
EBITDA Margin (%)	12.81	11.97
PAT Margin (%)	3.18	2.74
Overall Gearing Ratio (x)	0.84	0.68

*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 Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Debt-	Long	8.28	IVR A - /	IVR A - /	IVR A - /	--

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		Type	Amount outstanding (Rs. crore)	Rating	Date(s)& Rating(s) assigned in 2018-19	Date(s)& Rating(s) assigned in 2017-18	Date(s)& Rating(s) assigned in 2016-17
	Term Loan	Term		Stable Outlook	Stable Outlook	Stable Outlook (March 5, 2018)	
2.	Long Term Fund Based Limits-Cash Credit	Long Term	137	IVR A - / Stable Outlook	IVR A - / Stable Outlook	IVR A - / Stable Outlook (March 5, 2018)	
3.	Short Term Non Fund Based Facilities-Bank Guarantee	Short Term	205	IVR A2+	IVR A2+	IVR A2+(March 5, 2018)	

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.

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About Infomerics:

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 Debt - Term Loan	Present Outstanding	Varied	Ending on April, 2024	8.28	IVR A - / Stable Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	137	IVR A - / Stable Outlook
Short Term Non Fund Based Facilities- Bank Guarantee	--	--	--	205	IVR A2+