

Sri Raja Rajeswari Constructions (India) Private Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	105.00	CARE BBB+; Stable	Assigned
Long Term / Short Term Bank Facilities	295.00	CARE BBB+; Stable / CARE A3+	Assigned
Issuer rating	0.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to Sri Raja Rajeswari Constructions (India) Private Limited (SRRCIPL) considers the sustained and steady growth in the scale of operations in FY21 to FY23 [FY refers to April 01 to March 31], healthy profitability margins, strength from experienced promoters with an established track record in civil construction, and healthy order book position despite moderate geographical concentration. The rating also draws comfort from comfortable capital structure and debt coverage metrics with stable outlook on the construction industry.

However, the rating is constrained by a stretched collection period, resulting in high reliance on working capital borrowings, input cost volatility and tender-based business in the highly competitive construction industry. The rating duly considers operational and financial performance of the company in 9MFY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the scale of operations with total operating income (TOI) with profit before interest, lease rentals, depreciation, and taxes (PBILDT) margins at 15%.
- Improving gross current asset (GCA) days to 150 days on a continued basis

Negative factors

- Large debt addition resulting in deteriorating overall gearing ratio to 1.00x and above.
- Delaying execution of orders in hand with receivables extending above 180 days.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the satisfactory order book position, which is expected to aid the growth of the company's scale of operations and support its profitability.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoters with an established track record of operations

SRRCIPL draws on its extensive three-decade experience in the civil construction industry. The company possesses in-depth understanding of local market dynamics and maintains robust relationships with its customers and suppliers, resulting in substantial organisational advantages. The Chairman and Managing Director, Ravuri Muthaiah has been in the business for 25+ years and has extensive expertise in the civil engineering industry. He completed numerous Major Irrigation Projects and Power Projects with a high value per task. Ravuri Ramu (Director) has a B.Tech. (ECE) and an MBA; he is a technocrat who manages SRRCIPL's new growth potential.

Sustained growth in scale of operations with healthy profitability margins

SRRCIPL witnessed sustained and steady growth in scale of operations in the last three financial years. The firm has reported a marginal growth of 4.39% in FY23 to ₹638.08 crore as against ₹611.27 crore in FY22. On the profitability front, the company reported a PBILDT margin of 17.26% in FY23 as against 22.82% and a profit after taxes (PAT) margin of 7.07% in FY23 as against 7.05% in FY22. PBILDT margins have fallen in the year due to higher cost of materials, resulting in a high cost of sales. In 9MFY24, SRRCIPL reported revenue of ₹534.17 crore with PBILDT margin at 18.81% and PAT margins at 7.92%.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure and debt coverage indicators

The company's capital structure, marked by debt to equity and overall gearing has remained below unity for the last three years. Overall gearing marginally deteriorated to 0.84x as of March 31, 2023, from 0.80x as of March 31, 2022. Total debt (TD) comprised equipment loans, working capital borrowings, mobilisation advances, and a small portion of unsecured loans. SRRCIPL avails term loans, when required, for the execution of projects. The total sanctioned fund-based working capital limit is ₹98.00 crore and non-fund-based limits are ₹197 crore. Interest coverage ratio marginally deteriorated in FY23 to 4.04x (FY22: 5.90x). The fall in the ratio is due to the lower PBILDT as against that in FY22. The total debt to gross cash accruals (TD/GCA) also marginally deteriorated from 2.90x as of March 31, 2022, to 3.52x as of March 31, 2023.

Healthy order book position despite moderate concentration

SRRCIPL's order book position as of November 30, 2023, stood at ₹1769.74 crore, which translates to 2.80x of the gross billing for FY23. This provides the company with strong revenue visibility for the medium term. The company undertakes orders primarily from government departments, which reduces counterparty risk to a major extent. The company's majority contracts are backed by state government funding. SRRCIPL's whole work orders have an in-built price escalation clause, which mitigates the risk arising from adverse movement in input prices to a large extent.

Favourable industry outlook

With the government targeting to become a US\$5 trillion economy in FY25, significant investments to the tune of US\$1.4 trillion must be made in the infrastructure segment. To achieve the targeted growth, the government of India (GOI) has been increasing allocation in the infra segment. The centre budgeted a strong capex of ₹10 lakh crores in FY24, 37% higher than the revised estimate for FY23. The government has allocated the highest ever outlay for the highways sector under Budget FY24 to ₹2.7 lakh crore, which is a 28% increase in allocation. The budget allocation towards railways also increased by 70% in budgetary allocation of ₹2.40 lakh crore to Railways. The Ministry of Jal Shakti has been allocated ₹ 97,000 crore under the union budget FY23-24, 13% higher than the previous year. At the same time, state governments have also increased their capex spending. The higher spending by state and central governments is already reflected in the engineering, procurement, and construction (EPC) company's order book. Fueled by increased allocation, the revenue of EPC companies is expected to grow by 15% in FY24.

Key weaknesses**Stretched collection period resulting in high reliance on working capital borrowings**

Due to elongated receivables from irrigation orders in Telangana during COVID-19, the company availed working capital borrowings from NBFCs to support its operational requirements. The company utilised these limits to pay vendors and procure materials to sustain its higher margins. The operating cycle thus remained elongated at 166 days in FY23 as against 158 days in FY22, which was due to high collection days of 178 days in FY23. The working capital utilisation for fund-based limits for the last 12 months stood at 80.73% and for the non-fund-based facilities, it stood at 82.70%.

Profitability susceptible to input price fluctuations

The execution period of contracts awarded to SRRCIPL usually ranges from 18-48 months. Due to the long gap in execution, price fluctuations in inputs prices such as raw materials, labour, steel, cement, and sand among others may affect the company's profitability. However, SRRCIPL's whole work orders have an in-built price escalation clause, which mitigates risk arising out of adverse movement in input prices to a large extent.

Presence in a highly fragmented and competitive construction industry

SRRCIPL operates in the intensely competitive construction industry, where projects are awarded on relevant experience of the bidder, financial capability, and the most attractive bid price. The construction sector has been facing challenges in the last few years due to economic slowdown, regulatory changes, and policy paralysis, which have adversely impacted financial and liquidity profile of players in the industry. The issues arising from the COVID-19 outbreak have almost disappeared in today's business world. This has resulted in faster project execution, liquidity boost, capital infusion, and diversified projects across India. There is already a sharp recovery largely due to relief measures taken by the government and RBI such as a moratorium from debt servicing for six months, extension of additional credit lines and release of retention money under Aatmanirbhar scheme among others. Apart from this, there has been better preparedness by the industry post-pandemic. Companies have been able to withstand COVID and are coming back with a strong order book position to sustain revival, leading to a stable to positive outlook for the construction industry.

Liquidity: Adequate

The company's liquidity is adequate, characterised by overall bank limit utilisation at 80.73% for 12- months ended in December 2023. The company's GCA were ₹68.36 crores as of March 31, 2023, as against repayment obligation of ₹40.80 crore in FY24. The company's liquidity position is expected to remain adequate with healthy cash flow from operations. The current ratio is comfortable at 1.56x as of March 31, 2023. As of March 31, 2023, the company also had a cash balance of ₹2.23 crore.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial Sector Entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Nonfinancial Sector](#)

[Construction](#)

[Issuer Rating](#)

[Short Term Instruments](#)

About the company and industry**Industry classification**

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

SRRCIPL is a Hyderabad-based company that was initially set up as a proprietorship firm with the name 'R. Muthaiah' in 1993. R Muthaiah's business was later reconstituted as a partnership firm in 2007, where his son Ramu was made part of the business as a partner. It was then converted to a private limited company in 2014. SRRCIPL is engaged in earthworks, canal lining, and civil construction works. Ravuri Muthaiah is the Chairman and Managing Director with over 40 years' experience in civil engineering and Ravuri Ramu is the Director, who is a technocrat and comes with management skills and ensures projects are moving in the right direction.

The company's projects are geographically spread across Telangana, Maharashtra, Madhya Pradesh, Odisha, and Karnataka. In the past, the company executed orders in Gujarat, Jammu & Kashmir, and Chhattisgarh as well. As of November 30, 2023, the order book (OB) position stands at ₹1769.74 crore translating to 2.80x of the gross billing for FY23, which reflects revenue visibility for the medium term.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	601.07	630.36	534.17
PBILDT	137.22	108.81	100.49
PAT	42.41	44.62	42.32
Overall gearing (times)	0.80	0.84	0.63
Interest coverage (times)	5.90	4.04	5.40

A: Audited UA: Unaudited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument/facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	105.00	CARE BBB+; Stable
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	295.00	CARE BBB+; Stable / CARE A3+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE BBB+; Stable	1)CARE BBB+; Stable (29-Mar-24)	-	-	-
2	Fund-based - LT-Cash Credit	LT	105.00	CARE BBB+; Stable				
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	295.00	CARE BBB+; Stable / CARE A3+				

LT: Long Term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated:**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details:To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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