# Raghuram Hume Pipes Private limited

August 27, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 23.15<br>(Enhanced from 20.15) | CARE B+; Stable | Reaffirmed |
| Short Term Bank Facilities | 15.40<br>(Reduced from 18.40) | CARE A4 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Raghuram Hume Pipes Private Limited (RHPPL) continue to remain constrained by small scale of operations, working capital intensive nature of operations, leveraged capital structure, tender based nature of business, and presence in a highly competitive and fragmented industry. The ratings are, however, underpinned by vast experience and established presence of the promoters in the industry, moderate orderbook position, satisfactory profitability, and stable industry outlook.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Improvement of gearing to below 1.5x.
- Significant shortening of collection period resulting in improvement in operating cycle and cash flows.

**Negative factors**

- Any significant decline in revenue and profits, going forward.
- The working capital cycle elongating beyond 260 days thereby impacting the liquidity position of the company.

## Analytical approach: Standalone

## Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the extensive experience of the promoters in the industry.

## Detailed description of the key rating drivers:

## Key weaknesses

**Leveraged capital structure:**

The company's overall gearing remains leveraged, standing at 1.85x as on March 31, 2024, primarily due to working capital intensive nature of the business. Debt coverage indicators also stand moderate, with the interest coverage ratio at 1.46x in FY24, improving marginally from 1.37x in FY23. Furthermore, the Total debt to gross cash accruals ratio stood weak at 23.26x in FY24, on account of increase in total debt of the company and stable cash accruals.

**Small scale of operations:**

Raghuram Humes Pipes was incorporated in 1999, and its scale of operations has remained below ₹50 crore for the past five years. The company continues to operate on a small scale, reporting revenues of ₹45.02 crore in FY24. Despite long presence in the industry the company remains a small sized entity with a net worth base at ₹19.82 crore. Ability of the company to improve its scale remains a key monitorable.

**Working capital intensive nature of operations**

The company primarily operates in the construction industry, which is inherently capital-intensive due to an extended collection period, as most of its orders are from the government. The operating cycle of the company improved slightly but remained elongated at 240 days in FY24 (PY: 247 days). This was due to high inventory and collection periods of 136 days and 235 days in FY24, respectively, compared to 163 days and 253 days in FY23. Nevertheless, the company is strengthening its business by diversifying its operations and focusing on other states as well.

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

**Tender based nature of operations and operating in highly fragmented industry**
The company receives 100% of its work orders from government organizations. All of these orders are tender-based, and the company's revenues depend on its ability to successfully bid for these tenders. Profitability margins are under pressure due to the competitive nature of the industry. However, the company's ability to secure repeat orders from existing clients, based on its past track record, partially mitigates this risk. Nevertheless, numerous fragmented and unorganized players operate in this segment, making the construction space highly competitive.

## Key strengths

**Experienced promoters and long track record of operations**
The company has nearly two decades of experience in the construction industry, primarily through the execution of projects awarded by government organizations. It was jointly founded by Mr. V. Rama Rao and Mr. V. Lakshmana Rao, the Managing Director of RHPPL. The promoters bring over 25 years of experience in contract work related to drinking water and irrigation. Mr. V. Rama Rao specializes in executing filtration plants, sewage treatment plants, and gallery works. He plays a crucial role in securing work orders and various projects for the company and is instrumental in introducing the company to new clients and competitors in the field. Additionally, Mr. V. Lakshmana Rao has extensive experience in the manufacturing of prestressed concrete (PSC) pipes. On Account of promoters' long-standing experience, they have established strong relationships with the irrigation and water departments of the government, which has facilitated business development and the acquisition of new orders.
The promoters are resourceful and have been infusing funds in the form of interest-free unsecured loans to support the operations. As on March 31, 2024, the promoters infused ₹10.47 crore as unsecured loans.

**Moderate orderbook position**
The company has an outstanding order book valued at Rs. 186.48 crore as of June 30, 2024. This order book offers revenue visibility over the medium term, forming around 4 times the revenue of FY24. Nearly all orders are executed by the company with limited reliance on subcontracting. The order book includes contracts from government entities such as APSIDC Kadapa, APSIDC Guntur, APSIDC Vishakapatnam, TSIDC Hyderabad, and PWD-Ladakh, among others.

**Stable profitability margins**
The company generates the majority of its revenue from the execution of works contracts, with a smaller portion coming from the sale of its manufactured PSC and other pipes. The pipes produced are primarily intended for internal use. The company's profitability has remained stable in absolute terms, increasing from ₹5.90 crore in FY23 to ₹5.92 crore in FY24, although profit margins have declined. The company is actively working to improve margins by producing its own PSC pipes. Furthermore, nearly all contracts include escalation clauses related to cement and steel prices, which provide some protection against price increases for these materials. The company's PBILDT margins have been constrained by higher subcontracting expenses and rising construction material costs. Additionally, the PBILDT margin for FY24 was 13.15%, down from 14.73% in FY23 and 17.01% in FY22. The PAT margin in FY24 showed a slight improvement to 2.62%, compared to 2.56% in FY23 and 2.32% in FY22.

**Stable industry outlook**
The size of the Indian construction market is approximately USD 639 billion in the current year and is projected to register a compound annual growth rate (CAGR) of over 6% during the forecast period. The increasing population is creating a demand for more housing, particularly in tier 1 cities. To meet this demand, construction activities have been ramped up by both government entities and private sector companies. Additionally, the Indian government is placing a strong emphasis on the development of rural areas. The Indian construction sector is highly competitive, with a significant presence of both local and international players. However, there are also opportunities for small and medium-sized enterprises due to rising government investments in the sector. The Indian construction market offers substantial growth potential during the forecast period, which is expected to further intensify market competition. Major players are vying for a larger share of the Indian construction market.

## **Liquidity**: Stretched
Liquidity remains stretched, characterized by tightly matched accruals to meet term debt obligations and extensive utilization of working capital limits (more than 95% for the past 12 months). However, the company has a free cash and bank balance of Rs. 3.72 crore as of March 31, 2024. Also, the promoters are resourceful and may infuse need based funds in the business.

## **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 – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

## About the company and industry

### Industry classification

| Macro-Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Industrials | Construction | Construction | Civil Construction |

Raghuram Hume Pipes Private Limited (RHPPL), based in Andhra Pradesh, was incorporated in 1999 by Mr. Lakshmana Rao and Mr. M. Venkateswara Rao. The company is a special class contractor registered in the civil contract category for water supply, irrigation, drinking water projects, and road projects in Andhra Pradesh and Telangana. Additionally, RHPPL is subcontracted for specialized works, including galleries, infiltration wells, connecting mains, collection well cum pump houses, and gallery mains. The company is certified ISO 9001:2008 for the manufacturing of Prestressed Concrete pipes (PSC), Mild Steel pipes (MS), Bar Wrapped Steel Cylinder pipes (BWSC), and Reinforced Cement Concrete pipes (RCC), as well as for the execution of water supply schemes.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (UA) |
|---|---|---|
| Total operating income | 40.08 | 45.02 |
| PBILDT | 5.90 | 5.92 |
| PAT | 0.93 | 1.18 |
| Overall gearing (times) | 1.75 | 1.85 |
| Interest coverage (times) | 1.37 | 1.46 |

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

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated**: Annexure-4

**Lender details**: Annexure-5

### Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Bank Overdraft | | - | - | - | 19.00 | CARE B+; Stable |
| Fund-based - LT-Term Loan | | - | - | May 2025 | 4.15 | CARE B+; Stable |
| Non-fund-based - ST-Bank Guarantee | | - | - | - | 15.40 | CARE A4 |

### Annexure-2: Rating history for the 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Bank Overdraft | LT | - | - | - | - | - | 1)Withdrawn (26-Jul-21)<br><br>2)CARE B; Stable (26-Jul-21)<br><br>3)CARE B; Stable (05-Jul-21) |
| 2 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST | - | - | - | - | - | 1)Withdrawn (26-Jul-21)<br><br>2)CARE B; Stable / CARE A4 (26-Jul-21)<br><br>3)CARE B; Stable / CARE A4 (05-Jul-21) |
| 3 | Fund-based - LT-Term Loan | LT | 4.15 | CARE B+; Stable | - | 1)CARE B+; Stable (13-Jul-23) | 1)CARE B+; Stable (06-May-22) | - |
| 4 | Fund-based - LT-Bank Overdraft | LT | 19.00 | CARE B+; Stable | - | 1)CARE B+; Stable (13-Jul-23) | 1)CARE B+; Stable (06-May-22) | - |
| 5 | Non-fund-based - ST-Bank Guarantee | ST | 15.40 | CARE A4 | - | 1)CARE A4 (13-Jul-23) | 1)CARE A4 (06-May-22) | - |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Bank Overdraft | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Non-fund-based - ST-Bank Guarantee | Simple |

**Annexure-5: Lender details**

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|---|
| To view the lender wise details of bank facilities please click here |

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

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