Raj Conbuild Limited

August 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	5.00	CARE BB+; Stable / CARE A4+	Revised from CARE BB; Stable / CARE A4
Short Term Bank Facilities	60.00 (Enhanced from 30.00)	CARE A4+	Revised from CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Raj Conbuild Limited (RCL) takes into consideration sequential growth in scale of operations on the back of higher execution and billing of contracts over the past 3 fiscals ending FY24 (refers to the period April 1 to March 31), improvement in operating cycle along with the comfortable capital structure and moderate debt coverage indicators of the company. The ratings, further, continue to draw comfort from the experienced promoters coupled with long track record of operations and moderate order book position of the company.

The ratings, however, continue to remain constrained by its low profitability margins and project execution risk inherent in various infrastructure projects. Further, the ratings continue to remain constrained by its presence in a highly competitive industry with presence of several unorganized players and risks associated with tender-based orders.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations as marked by total operating income of above Rs.150.00 crore by timely execution of orders in hand on a sustained basis and improvement in the order book position to more than 2.00x of previous year turnover.
- Improvement in profitability margins as marked by PBILDT margin above 9.00% on a sustained basis.

Negative factors

- Decline in profitability margins as marked by PBILDT margin of below 4.50% on sustained basis.
- Any significant deterioration in the capital structure of the company as marked by overall gearing ratio of above 1.25x.
- Elongation in the operating cycle of the company beyond 100 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the entity will continue to benefit from the experienced promoters of the entity along with its established track record of operations in construction industry and shall sustain its moderate financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key weaknesses

Low profitability margins: The company majorly undertakes government projects, which are awarded through the tender based system. The profitability margins of the company stood low for the past three financial years i.e. (FY22-FY24) since it largely depends upon the nature of mix of fixed price contracts executed. Further, PBILDT margin of the company reflects moderation by around 47 bps to 6.56% in FY24 as against 7.03% in FY23 owing to company's limited ability to fully pass on the incremental cost in terms of raw material cost, job work charges, etc. to the end consumer due to presence of fixed price clause in majority of the unexecuted contracts. Further, PAT margin also moderated and stood at 3.70% in FY24 as against 3.84% in FY23 backed by moderation in PBILDT levels and on account of increase in finance charges due to higher reliance on working capital borrowings during the year. Going forward, PBILDT margin is expected to remain at similar levels as per the projected period.

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

Project execution risk inherent in various infrastructure projects: Given the nature of projects awarded, RCL is exposed to inherent risk in terms of delays in certain projects undertaken by the company due to delay in approvals and sanction from regulatory bodies such as design and structure clearance, land acquisition issues, etc. thus exposing RCL towards the risk of delay in projects resulting in a delay in the realization of revenue growth. Furthermore, the company's ability to execute a project in timely manner would be led by its own operational efficiency and timely stage payments received from its clients which is also crucial from credit perspective.

Highly competitive nature of industry along with business risk associated with tender-based orders: RCL operates in a highly competitive construction industry wherein it faces direct competition from various organized and unorganized players in the market given the low barriers to entry. There are number of small and regional players catering to the same market which has limited the bargaining power of the company and has exerted pressure on its margins. RCL receives majority of the work orders from government/ public sector undertakings. The risk arises from the fact that any changes in geo-political environment and policy matters would affect all the projects at large. Further, any changes in the government policy or government spending on projects are likely to affect the revenues and profits of the company. The company majorly undertakes government projects which are awarded through the tender-based system. This exposes the company towards risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder.

Key strengths

Experienced promoters coupled with long track record of operations: RCL's operations are currently being managed by Mr. Rajiv Chaudhary and Mrs. Anchal Chaudhary having considerable experience varied up to two decades in executing water supply contracts through their association with this entity. Furthermore, RCL is also supported by a team of qualified engineers, supervisory staff and technicians to work on various sites having relevant experience in their respective fields. The company is having a considerable track record in this business which has given them an understanding of the dynamics of the market and enabled them to establish long term relationships with both suppliers and customers.

Growing scale of operations: RCL's scale of operations has grown significantly over the past 3 fiscals ending FY24 owing to execution gaining pace. The company has reported total operating income (TOI) and gross cash accruals (GCA) of Rs.98.40 crore and Rs.4.05 crore respectively, during FY24 (FY refers to the period April 1 to March 31; based on provisional results) as against Rs.51.64 crore and Rs.2.28 crore respectively, during FY23. The increase in TOI is on account of higher execution and billing of contracts due to diversification of its geographical reach to the customers of Bihar, Jharkhand and Bihar. Further, the company has achieved total operating income of ~Rs.15.00 crore during Q1FY25 (refers to the period from April 1, 2024 to June 30, 2024; based on provisional results). In Q1FY25 refers to the period from April 1, 2024 to June 30, 2024; based on provisional results), the turnover is on lower side owing to delay in the realization of payments due to recently concluded general elections and has now picked-up pace from Q2FY25. Thus, the company has booked turnover of ~Rs.32.00 crore in 4MFY25 and has projected to book revenue of ~Rs.120.00 crore in FY25 backed by unexecuted order in hand of ~Rs.209.88 crore and further push from the Indian government for the country's infrastructure development.

Improvement in operating cycle: The operating cycle of the company improved and stood moderate at 38 days for FY24 (P.Y.: 71 days) primarily on account of early realization from its customers. Due to normalization of business after COVID-19 impact and diversification of its geographical reach to the state of Jharkhand, Bihar and Assam wherein the realization used to happen on timely basis which resulted in improvement in collection period to 40 days for FY24 (190 days for FY22). The same has led to the improvement in the operating cycle of the company for last two fiscals ending FY24. The company raises bills on monthly basis i.e. on the completion of certain milestone which gets acknowledge by client after necessary inspection of work done by the respective departments. Post the inspection, department clears the payment within 2-3 months (maximum) by deducting certain percentage of bill raised (ranging from 5-10% of bill amount) in the form of retention money, which they refund after submission of bank guarantee/ after one year from the completion of contract. Thus, the average collection period stood at 40 days for FY24. The inventory is in the form of work in progress at different sites at moderate levels resulting in an average inventory holding period of 7 days for FY24. Further, the company receives an average credit period of around 1-2 months from its suppliers. The average utilization of fund-based working capital limits remained almost 68% utilized for past 12 months ending June, 2024.

Comfortable capital structure and moderate debt coverage indicators: As on March 31, 2024, the debt profile of the company comprises of term/vehicle loan of Rs.1.86 crore, unsecured loans from directors, promoters and related parties of Rs.1.98 crore and working capital bank borrowings of Rs.6.16 crore against tangible net worth base of Rs.22.56 crore. Despite the increase in debt levels, the capital structure of the company continues to remain comfortable with overall gearing ratio at 0.44x as on March 31, 2024 increasing from 0.24x as on March 31, 2023 mainly on account of higher utilization of working capital borrowings as on balance sheet date in line with higher execution of new contracts and to support the growing scale of operations. Further, on account of limited debt levels, the debt coverage indicators of the company continue to remain moderate as marked by interest coverage ratio and total debt to GCA which stood at 4.37x and 2.47x respectively, for FY24 (prov.) as against 3.48x and 1.97x respectively, for FY23. The deterioration is on the back of substantial increase in the utilization of working capital borrowings as on balance sheet ate, consequently leading to higher total debt and finance cost.

Moderate order book position albeit slow pace of execution: RCL has an unexecuted order book position of ~Rs.209.88 crore as on May 31, 2024 which is equivalent to ~2.13x the total operating income achieved in FY24, thereby reflecting revenue visibility over the medium term. Further, the progress of certain orders remains slow owing to various issues including delay in civil work, land acquisition issues, land rehabilitation issue, environmental clearances, design and structure clearances, delay in the handover of the site from the respective departments, etc. Further, disruptions in project execution within the timelines is also caused by extreme climatic conditions of the respective state. Thus, timely completion of slow-moving orders with cost overrun and execution pace of new orders received in 2023 will be key rating sensitivities. Timely execution of existing as well as newly received large sized orders remain key rating monitorable. However, the same is mitigated to a large extent with respect to higher execution of contracts resulting in consistent growth in scale of operations over the last three fiscals ending FY24.

Liquidity: Adequate

The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company has reported net cash accruals (NCA) to the extent of Rs.4.05 crore during FY24 and is expected to generate envisage NCA of Rs.4.22 crore for FY25 against repayment obligations of Rs.0.37 crore in same year. Further, the average utilization of its fund-based limits stood ~68% non-fund-based limits stood ~40% utilized for the past 12 month's period ending June, 2024. Furthermore, company's liquidity profile is also supported by free cash and bank balances which stood at Rs.4.08 crore as on March 31, 2024 on account of timely realization from its customers. Further, the company is not planning any major capex plan in the near term.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

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

Delhi based, Raj Conbuild Limited (RCL) was incorporated in October, 2008 as a private limited company. The company is currently being managed by Mr. Rajiv Chaudhary and Mrs. Anchal Chaudhary. The company undertakes civil construction contracts for setting up of drinking water supply systems, laying of water supply distribution networks and pipes and sewage treatment plants (STP) on turnkey basis (design, construction, supply, installation, testing and commissioning) and its development, operation & maintenance related works mainly for government departments/public sector undertakings like Delhi Jal Board (Delhi), Public Health Engineering Department (Bihar), Public Health Engineering Department (Assam), Drinking Water & Sanitation Department (DWSD) (Jharkhand), etc. In order to get the business, company has to participate in tenders floated by government companies.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	4MFY25 (Prov.)*
Total operating income	51.64	98.40	32.00
PBILDT	3.63	6.45	NA
PAT	1.98	3.64	NA
Overall gearing (times)	0.24	0.44	NA
Interest coverage (times)	3.48	4.37	NA

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'
*refers to the period from April 1, 2024 to July 31, 2024.

Status of non-cooperation with previous CRA: CRISIL has continued the ratings assigned to the bank facilities of Raj Conbuild Limited to the "Issuer Not-Cooperating" category vide its press release dated November 13, 2023 on account of its inability to carryout review in the absence of requisite information from the company.

Any other information: Not Applicable

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

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

Complexity level of the 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/ ST-Bank Overdraft		-	-	-	2.90	CARE BB+; Stable / CARE A4+
Fund-based/Non-fund-based-LT/ST		-	-	-	2.10	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	60.00	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/ ST-Bank Overdraft	LT/ST	2.90	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (21-Jul-23)	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (16-Dec-22)	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (28-Sep-21)
2	Non-fund-based - ST-Bank Guarantee	ST	60.00	CARE A4+	-	1)CARE A4 (21-Jul-23)	1)CARE A4; ISSUER NOT COOPERATING* (16-Dec-22)	1)CARE A4; ISSUER NOT COOPERATING* (28-Sep-21)
3	Fund-based/Non-fund-based-LT/ST	LT/ST	2.10	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (21-Jul-23)	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (16-Dec-22)	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (28-Sep-21)

*Issuer did not cooperate; based on best available information.
ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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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