

Raj Construction

August 27, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|------------------|---------------------------|---------------|
| Long Term Bank Facilities | 2.00 | CARE BB; Stable | Assigned |
| Long Term / Short Term Bank Facilities | 34.00 | CARE BB; Stable / CARE A4 | Assigned |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Raj Construction are constrained by the firm's presence in highly competitive industry with dependence on government on work orders, exposure to fluctuations in raw material prices and revenue concentration risk. The ratings also take into consideration the constitution of the entity being in a partnership firm, the firm's modest scale of operations, the low net-worth base of the firm and high dependence on external funds for managing its working capital requirements. However, the ratings draw comfort from the experienced partners, marginal improvement in profitability margins and its average financial risk profile marked by stretched liquidity position of the firm.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations marked by total operating income of Rs. 125 crores with a PBILDT margin of above 10% on a sustained basis.
- Growth in its order book position and timely execution of the same.

Negative factors

- Deterioration of liquidity position owing to delay in payment from government departments leading to an operating cycle of 85 days.
- Decrease in scale of operations marked by total operating income below Rs. 55 crores with a PBILDT margin below 7% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall benefit from the experience of its promoters as well as through its diversified range of product offerings.

Detailed description of the key rating drivers:

Key weaknesses

Highly competitive industry with dependence on government for work orders:

Raj Construction operates in a highly competitive construction industry wherein it faces direct competition from various market players given the low barriers to entry. The firm is dependent on contracts from PWD departments, which often leads to project delays due to compliance requirements. Additionally, public agencies face budget constraints that can delay fund disbursement. Changes in administration and project specifications further disrupt project continuity due to standardized procedures and stringent regulations. The firm has an unexecuted order book of Rs. 153.34 crore which is ~2.45x of the total operating income for FY24 (refers to period April 1 to March 31).

Exposure to raw material price fluctuation risk:

The firm's raw materials, including steel and cement sourced from local vendors, are subject to price volatility, which can adversely impact profitability. This risk is exacerbated by the absence of a price escalation clause, meaning the firm cannot adjust its prices in response to rising input costs. Consequently, any fluctuations in raw material prices could lead to increased expenses without corresponding revenue adjustments, thereby affecting the firm's financial stability and profitability.

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

Modest scale of operation and revenue concentration risk:

The firm is a small regional player in the highly competitive industry with moderate scale of operations, primarily focuses on executing the balance work contracts. However, the ability of the firm to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low capital base of Rs. 25.45 crores as on March 31, 2024. Also, the moderate scale of operations limits the pricing power and restricts the firm from benefiting through economies of scale. The total operating income of the firm is envisaged to increase in FY25 based on execution of projects out of total work in hand.

Partnership nature of constitution with inherent risk of withdrawal of capital:

Raj Construction operates as a partnership firm, which inherently carries the risk of capital withdrawal by partners during personal contingencies, potentially eroding the capital base and adversely affecting the capital structure. It is witnessed that each partner has withdrawn the capital of Rs. 0.14 crores as on March 31, 2024.

Key strengths**Marginal improvement in profitability margins:**

In terms of profitability, Raj Construction witnessed marginal improvement in PBILDT to 8.18% in FY24 due to technical qualifications to bid as the main contractor. The firm has also realized revenue of ~Rs. 9 crores, with PBILDT margin of 16.54% in Q1FY25 (refers to period April 1 to June 30) which was primarily impacted owing to general elections and heatwave in Northern part of India.

Average financial risk profile:

The overall gearing of the firm stood moderate at 0.63x as on March 31, 2024 (PY: 0.31x) due to an increase in debt level to meet working capital requirements to support the growth in scale of operations of the firm. Higher debt also resulted in moderation in TOL/TNW (Total Outside Liabilities/ Total Net Worth) ratio of the firm from 0.84x as on March 31, 2023, to 1.53x as on March 31, 2024. However, the interest coverage ratio of the firm improved slightly to 5.35x in FY24 (PY: 4.70x), mainly due to a decline in the interest level of the firm.

Experienced Management:

Raj Construction is managed by two partners, Mrs. Rekha Singh and Mrs. Mamta Singh, who bring nearly a decade of experience. The management has built long-term relationships with suppliers and customers. The firm boasts a strong, experienced team of engineers and support personnel, including technicians and skilled workers, capable of planning, designing, supervising, and constructing to meet clients' needs.

Liquidity: Stretched

The firm's liquidity position remained stretched with a cash and bank balance of Rs. 43.75 crores as of March 31, 2024, due to payments received in the latter half of March 2024. Expected gross cash accruals are Rs. 4-5 crores against debt repayment obligations of Rs. 1-2 crores. The current and quick ratios moderated to 1.59x and 1.53x, respectively, for FY24. Also, the working capital utilization remains fully utilized due to the capital-intensive nature of operations.

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](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

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

Established in April 2010, Raj Construction is a partnership firm engaged in civil infrastructure projects, with its registered office in Sultanpur, Uttar Pradesh. The firm is being promoted by Mrs. Rekha Singh and Mrs. Mamta Singh, each holding an equal stake in the firm. The firm is majorly in road project as a contractor and sub-contractor having expertise in the field of different works like Building and Bridge Construction.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (UA) | Q1FY25 (UA) |
|----------------------------|--------------------|---------------------|-------------|
| Total operating income | 75.21 | 62.54 | 8.95 |
| PBILDT | 5.82 | 5.11 | 1.48 |
| PAT | 2.76 | 2.29 | 1.92 |
| Overall gearing (times) | 0.31 | 0.63 | NA |
| Interest coverage (times) | 4.70 | 5.35 | NA |

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL has moved the ratings to the bank facilities of Raj Construction to the 'issuer not-cooperating' category vide press release dated January 31, 2024, on account of its inability to carryout review in the absence of requisite information from the firm.

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 | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---------------------------------|------|------------------|-----------------|---------------|-----------------------------|---|
| Fund-based - LT-Term Loan | - | - | - | January 2031 | 2.00 | CARE BB; Stable |
| Fund-based/Non-fund-based-LT/ST | - | - | - | - | 34.00 | CARE BB; Stable / 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/Non-fund-based-LT/ST | LT/ST | 34.00 | CARE BB; Stable / CARE A4 | - | - | - | - |
| 2 | Fund-based - LT-Term Loan | LT | 2.00 | CARE BB; Stable | - | - | - | - |

LT: Long 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-Term Loan | Simple |
| 2 | Fund-based/Non-fund-based-LT/ST | 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.

Contact us

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About us:

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Disclaimer:

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