RLA Constructions

December 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.00 (Enhanced from 2.50)	CARE BB-; Stable	Rating removed from ISSUER NOT COOPERATING category and Upgraded from CARE B+; Stable
Short Term Bank Facilities	15.00 (Enhanced from 9.50)	CARE A4	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the long-term rating assigned to the bank facilities of RLA Constructions (RLA) factors in improvement in financial risk profile as characterized by improvement in overall gearing and debt coverage indicators during FY24 (refers to the period from April 01, 2023 to March 31, 2024), improvement in profitability margins in FY24, substantial growth in cashflow from operations, and increase in scale of operations in the current financial year i.e. 7MFY25 (refers to the period from April 01, 2024 to October 31, 2024). The ratings continue to derive strength from experience of the promoter in the construction industry with long-track record of the firm's operations. However, the ratings continue to remain constrained by the small scale of operations and low orderbook position with geographical concentration. Further, the rating also considers volatility associated with fluctuations in input prices and absence of price escalation clause, business risk associated with tender-based orders and constitution of the entity being a proprietorship firm.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income above Rs 90 crores on a sustained basis.
- Improvement in capital structure as marked by overall gearing of below 1.00x on a sustained basis.
- Improvement in orderbook to more than 1.50x of previous year's Total operating income.

Negative factors

- Deterioration in profitability margins as marked by PBILDT Margin below 10.00% on a sustained basis.
- Deterioration in capital structure with overall gearing above 2.00x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the firm will continue to benefit from the long-standing experience of proprietor in the industry.

Detailed description of key rating drivers:

Key weaknesses

Small scale of operations

During FY24, the company reported a TOI (Total operating income) of Rs. 37.62 crore, which remained largely in line with the TOI of Rs. 36.75 crore achieved during previous year. The scale remains modest which limits the company's financial flexibility in times of stress and deprives it of scale benefits. However, the company achieved a TOI of around Rs. 30 crores during 7MFY25 (refers to the period from April 01, 2024, to October 31, 2024) marked by faster execution of orders.

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

Low orderbook position
The order book momentum of the firm stood low as reflected by unexecuted order book of Rs. 7.22 crore as on October 31, 2024, which is equivalent to 0.19 times of total operating income in FY24, thus providing low revenue visibility in near term. Majority of the projects are for roads and bridges, mainly from state government departments such as public works department and Rural Engineering Department. Most of the orders being executed are fixed price, fixed time in nature and hence effective and timely execution of the orders has a direct bearing on the margins attained. Geographically, RLA's order book is mainly concentrated in Mathura, Uttar Pradesh.

Volatility associated with fluctuations in input prices and absence of price escalation clause
The major input of raw materials for the firm are stone chips, bitumen, cement, bricks, sand etc., the prices of which are volatile in nature. This apart, any increase in the labour cost will also impact the profitability of the firm being present in a highly labour-intensive industry. None of the projects have price escalation clause, which restricts the firm's ability to pass on the incremental input materials and other costs to its customers and is likely to impact the profitability of the firm.

Business risk associated with tender-based orders
The firm majorly undertakes the government projects which are awarded through the tender-based system. The firm is thus exposed to the risk associated with the tender-based business, which is characterized by the intense competition. The growth of the business depends on the ability to successfully bid for the tenders and emerge as the lowest bidder. Further, any changes in the government policy or government spending on infrastructure projects are likely to affect the revenues of the firm.

Constitution of the entity being a proprietorship firm
RLA Constructions' constitution being a proprietorship firm has the inherent risk of possibility of withdrawal of proprietor's capital at the time of personal contingency and the firm being dissolved upon the death/ insolvency of the proprietor. Moreover, proprietorship firms have restricted access to external borrowings as credit worthiness of the proprietor would be the key factor affecting credit decision for the lenders.

Highly Fragmented and Competitive Civil Construction Industry
RLA operates in a highly competitive and fragmented industry and faces intense competition from both the organised and largely unorganised players as the projects are tender-based and the revenue is dependent on its ability to bid successfully for these tenders. This results in price competition, thereby affecting the profitability margins of the companies operating in the industry.

Key strengths

Improvement in overall gearing and debt coverage indicators
As on March 31, 2024, the firm's capital structure improved with an overall gearing of 1.36x (PY:2.20x). The improvement in capital structure was on account of repayment of term loan, slightly lower working capital utilisation, and accretion of profits to net worth. The debt coverage indicators of the firm, as marked by interest coverage ratio and total debt to gross cash accruals (GCA) stood moderate at 3.02x and 3.56x respectively in FY24 (A) as against 3.08x and 6.57x respectively in FY23 (A). The improvement in debt coverage indicators was on account of repayment of loan and increase in PBILDT in FY24. Further, cashflow from operations also improved substantially to Rs.10.69 crore in FY24 (PY: Rs.3.96 crore) largely on account of stretching of trade payables.

Improvement in profitability margins
The PBILDT and PAT margin of the firm improved to 11.80% (PY: 9.53%) and 5.06% (PY: 3.07 %) respectively in FY24. The improvement in profitability margins was mainly on account of decrease in employee cost, power and fuel expenses and tender fees incurred in FY24. The PBILDT margin is expected to remain in the range of 11.00-12.00% over the medium term since the firm is bidding contracts with higher margins.

Long operational track Record
The firm has around two decades of experience in the construction industry. Mr. Kuldeep Agrawal, the promoter, has executed various civil construction projects. He has more than two decades of experience in the construction business, through his association with the firm and other associate entities engaged in similar line of business.

Liquidity: Stretched

The liquidity position of the firm remains stretched as marked by tightly matched accruals vis-à-vis repayment obligations. The firm has generated gross cash accruals of Rs. 3.28 crore in FY24 (A) and is expected to generate GCA of Rs 3.78 crores in FY25 against repayment obligations of around Rs. 2.96 crore in the same year. Further, the firm has low unencumbered cash and bank balances of Rs. 0.46 crore as on March 31, 2024.The net working capital cycle improved to negative 26 days in FY24 (FY23: negative 10 days) due to further stretch in creditor days to 79 days (PY:56 days). The firm is not planning to incur any major capex in the near to medium 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

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Based in Mathura (Uttar Pradesh), RLA Constructions was established as a proprietorship firm in 2009 by Mr. Kuldeep Agrawal. The firm is engaged in construction of infrastructure projects like construction & maintenance of roads, bridges and interlocking. The firm majorly undertakes government projects which are awarded through the tender-based system. The firm participates in the tenders floated by the government departments in Uttar Pradesh and has been executing various projects for government entities/departments such as Public Works Department (PWD), Pradhan Mantri Gram Sadak Yojana (PMGSY), Uttar Pradesh Jila Panchayats etc.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	7MFY25 (UA)*
Total operating income	36.75	37.62	30.00
PBILDT	3.50	4.45	NA
PAT	1.13	1.90	NA
Overall gearing (times)	2.20	1.37	NA
Interest coverage (times)	3.08	3.02	NA

A: Audited UA: Unaudited; NA: Not available Note: these are latest available financial results

*Refers to the period from April 01, 2024 to October 31, 2024.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	5.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	15.00	CARE A4

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 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-Working Capital Limits	LT	5.00	CARE BB-; Stable	1)CARE B+; Stable; ISSUER NOT COOPERATING* (25-Oct-24)	1)CARE B+; Stable (23-Aug-23)	1)CARE BB-; Stable (14-Sep-22)	1)CARE BB-; Stable (01-Jul-21) 2)CARE B; Stable; ISSUER NOT COOPERATING* (29-Apr-21)
2	Non-fund-based - ST-Bank Guarantee	ST	15.00	CARE A4	1)CARE A4; ISSUER NOT COOPERATING* (25-Oct-24)	1)CARE A4 (23-Aug-23)	1)CARE A4 (14-Sep-22)	1)CARE A4 (01-Jul-21) 2)CARE A4; ISSUER NOT COOPERATING* (29-Apr-21)

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short 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-Working Capital Limits	Simple
2	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 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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