February 07, 2023

R.R. Infraa Construction: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	80.00	80.00	[ICRA]BBB (Stable); Reaffirmed
Short-term – Non-fund based	90.00	90.00	[ICRA]A3+; Reaffirmed
Total	**170.00**	**170.00**	

**Instrument details are provided in Annexure I*

Rationale

For arriving at the ratings, ICRA has considered the combined business and financial analysis of R.R. Infraa Construction (RRIC) and R Ramu, referred to as the Group. Both the entities are managed by the same promoter group, operate in similar line of business of construction due to which there is strong business and financial linkages between the two entities.

The ratings reaffirmation continues to derive comfort from the sustained growth in the Group's scale of operations, with a revenue growth of 16% in FY2022 (consolidated revenues stood at Rs. 724.4 crore in FY2022). The ratings positively note the Group's low leverage and satisfactory coverage metrics. Notwithstanding the moderation in profit margins in FY2022, the Group's leverage and coverage metrics improved during the corresponding period, as reflected by a TOL/TNW of 0.5 times as on March 31, 2022 (against 0.8 times as on March 31, 2021), interest cover and DSCR of 9.7 times and 3.3 times, respectively, in FY2022 (against 9.8 times and 1.4 times, respectively, in FY2021). The same was supported by the higher profits in FY2022, in absolute terms, on the back of improved scale of operations. The ratings continue to consider the extensive experience of the promoters in the construction segment and the Group's proven operational track record.

The ratings, nonetheless, remain constrained by the high geographical and client concentration of the Group's projects, with its entire pending order book as of October 2022 comprising projects located in Tamil Nadu from the state highway department. Besides, the order book was moderate at ~Rs. 1,242 crore of pending orders as on October 31, 2022, which translates to an order book/operating income (OB/OI) of 1.7 times of FY2022's OI, thereby providing moderate to limited medium-term revenue visibility. The Group's ability to scale up its order book, which would in turn support sustaining its scale of operations would remain a key monitorable. Given the limited cushion in its non-fund based limits, company's ability to enhance its working capital lines remains crucial to support operations and bid for new orders. The ratings remain constrained by the intense competition faced by the Group from other players in the construction segment, considering the tender-based contract award system followed by the government authorities. The ratings continue to factor in the execution risks associated with the construction contracts and the Group's exposure to sizeable contingent liabilities in the form of bank guarantees (BGs). The ratings also consider the risks associated with the partnership nature of the entity in terms of capital withdrawal.

The Stable outlook reflects ICRA's expectations that the Group's credit profile will benefit from its orders in hand and demonstrated execution track record.

Key rating drivers and their description

Credit strengths

Healthy scale of operations – The Group's OI witnessed robust growth over the last five fiscals through FY2022 at a CAGR of nearly 25%. The revenues grew by nearly 16% in FY2022 and stood at Rs. 724.4 crore, backed by healthy inflow of orders and timely execution of the same. Notwithstanding the decline in FY2022, the operating margin continues to remain comfortable at 15.7% in FY2022, aided by efficient project management, centralised raw material procurement for all the ongoing projects and the adequate asset base of the Group, which reduces its reliance on hiring equipment.

Comfortable capital structure and coverage indicators – The Group's capital structure remains comfortable, characterised by total debt/tangible net worth of 0.4 times and TOL/TNW of 0.5 times as on March 31, 2022 (compared to 0.6 times and 0.8 times, respectively, as on March 31, 2021). The same is aided by its considerable net worth position and relatively lower reliance on external borrowings. The Group's coverage indicators continued to remain healthy, with an interest coverage of 9.7 times in FY2022 (against 9.8 times in FY2021). Besides, the DSCR improved to 3.3 times in FY2022, from 1.4 times in FY2021, supported by the relatively lower repayment obligations during the corresponding period. While the working capital cycle is comfortable at present, any slippages in execution or built-up of receivables could impact the Group's profitability and liquidity position and therefore remains a key monitorable.

Established track record of promoter in civil construction industry – The Group's promoter has over three decades of experience in the civil construction industry and has executed projects in Tamil Nadu. It has a proven execution capability in road projects and has executed several projects for various government agencies, which support its order inflows.

Credit challenges

High geographical and customer concentration risks – The Group faces high revenue concentration risks in terms of geography, with its entire revenues and 100% of its ongoing orders are from Tamil Nadu. The Group also faces high client concentration risk, with a major portion of its revenues being derived from the state highways bodies. Nonetheless, as the Group's clientele comprises entirely of government entities, the counterparty risk is mitigated to an extent.

Stiff competition in industry – The Group faces intense competition in the construction space because of a tender-based contract awarding system and the presence of multiple players in the segment. The Group's order book was moderate with ~Rs. 1,242 crore of pending orders as on October 31, 2022, which translates to an order book/operating income (OB/OI) of 1.7 times of FY2022's OI, thereby providing moderated to limited medium-term revenue visibility. The Group's ability to secure projects consistently, amid the prevailing competition, remains the key to sustain its revenue growth at healthy levels and will be a key credit monitorable.

Execution risks and sizeable exposure to contingent liabilities – The Group is exposed to the execution risks associated with construction contracts. The Group is also susceptible to the risk of sizeable contingent liabilities in the form of BGs (~Rs. 111 crore as of November 2022). Nonetheless, the favourable execution track record and no crystallisation of BGs in the past provide comfort. The Group has limited buffer available in its sanctioned BG facilities at present and it had to provide some BGs against 100% margin. The Group's ability to secure adequate enhancement in its bank facilities to support its growth trajectory will remain a key monitorable.

Risks associated with the proprietorship/partnership nature of the entities – The Group is exposed to capital withdrawal risk arising out of the proprietorship nature of R. Ramu and the partnership nature of R. R. Infraa Construction. However, ICRA has taken comfort from the relatively limited capital withdrawal (compared to the accruals) in the past. Further, the management has indicated that over the medium term, RRIC will be converted into a private limited firm and will become the flagship entity of the Group.

Liquidity position: Adequate

The Group's liquidity remains adequate, characterised by the availability of considerable unencumbered cash balances and availability of moderate buffer in its fund-based working capital facilities. However, the utilisation of its non-fund based limits (under RRIC) stood at 98% of the sanctioned limits as of October 2022. Nonetheless, the expected release of BGs worth ~Rs. 15 crore in Q4 FY2023 is likely to facilitate the creation of a buffer in the firm's non-fund based lines and is likely to support its ability to meet the BG requirements for its future projects. The Group has term loan repayment obligations of nearly Rs. 5.0 crore/annum in FY2023 and FY2024, and its cash flow from operations are likely to remain adequate to meet the same.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group sustains its current scale of operations, supported by a healthy order accretion and timely execution of the same, while diversifying order book further, maintaining its profitability and coverage indicators at the current levels and achieving substantial improvement in its liquidity.

Negative factors – The ratings may be downgraded if lower order accretion and/or slower execution results in significantly lower revenues or material deterioration in profitability and coverage indicators. Further, a stretch in the working capital cycle or a large debt-funded capital expenditure or sizeable capital withdrawal leading to a weakened liquidity position with TOL/TNW greater than 1.5 times could put pressure on the ratings. Negative pressure on the ratings might also arise if the Group is unable to secure adequate enhancements in its working capital facilities, in line with its business requirements.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Consolidation Rating Approach Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the combined financial analysis of R.R. Infraa Construction and R Ramu, given the close business and managerial linkages among them.

About the company

Mr. R Ramu set up the firm M/s. R. R. Infraa Constructions in 2014 with his sons Mr. R. Murugaperumal and Mr. R. Saravanan as the other partners of the firm. It undertakes civil government contracts involving the improvement and pavement of roads predominantly in Chennai, Madurai, Salem and Krishnagiri. Mr. R Ramu has a proprietorship concern, M/s. R Ramu, which has been operational for the past three decades and is into a similar line of operations. The entity – R Ramu – has limited operations as of now and mainly operates as a sub-contractor for RRIC.

Key financial indicators (Audited)

RRIC (Consolidated)	FY2021	FY2022
Operating income (Rs. crore)	624.70	724.37
PAT (Rs. crore)	58.62	60.37
OPBDIT/OI (%)	17.59%	15.72%
PAT/OI (%)	9.38%	8.33%
Total outside liabilities/Tangible net worth (times)	0.76	0.52
Total debt/OPBDIT (times)	1.03	0.82
Interest coverage (times)	9.79	9.74

(Source: RRIC; ICRA); Combined financials of RRIC and R Ramu

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

RRIC (Standalone)	FY2021	FY2022
Operating income (Rs. crore)	624.96	724.37
PAT (Rs. crore)	51.24	58.62
OPBDIT/OI (%)	16.71%	15.46%
PAT/OI (%)	8.20%	8.09%
Total outside liabilities/Tangible net worth (times)	0.91	0.57
Total debt/OPBDIT (times)	1.06	0.84
Interest coverage (times)	7.90	9.58

Source: RRIC; ICRA

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2022 (Rs. crore)	Date & Rating on	FY2022	FY2021	FY2020
					February 07, 2023	December 09, 2021	October 30, 2020	April 05, 2019
1	Fund-based facility	Long term	80.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
2	Non-fund based facility – Bank Guarantee	Short term	90.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A4+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facility	Simple
Non-fund based facility – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based facility**	NA	NA	NA	80.00	[ICRA]BBB (Stable)
NA	**Non-fund based facility – Bank Guarantee**	NA	NA	NA	90.00	[ICRA]A3+

Source: RRIC and ICRA

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	RRIC's Ownership	Consolidation Approach
R. R. Infraa Constructions	-	Full Consolidation
R Ramu	-	Full Consolidation

Source: RRIC; ICRA

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