December 13, 2023

RRSM Infra Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	6.50	55.00	[ICRA]A-(Stable); reaffirmed and assigned for enhanced amount
Long-term/ Short-term – Non-fund based – Bank guarantee	18.50	364.50	[ICRA]A-(Stable)/[ICRA] A2+; reaffirmed and assigned for enhanced amount
Long-term/ Short-term – Unallocated	-	130.50	[ICRA]A-(Stable)/[ICRA] A2+; assigned
Total	**25.00**	**550.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for RRSM Infra Private Limited (RIPL, erstwhile Rajendra Singh Bhamboo Infra Private Limited) continues to factor in its improved scale of operations and leverage metrics, which is expected to sustain over the medium term. The company's revenues grew by ~56% to Rs. 983.8 crore in FY2023 (following a 56% YoY growth in FY2022). Its adequate order book position of Rs. 2,747.8 crore (2.6 times of FY2023 revenue as on September 30, 2023) provides healthy medium-term revenue visibility. The ratings note the improvement in RIPL's order book profile, with further geographical diversification and the share of Central Government and multi-lateral agencies-funded projects increasing to over 90% of the order book, which is likely to result in a comfortable cash conversion cycle. The ratings consider the company's comfortable financial profile with interest coverage of 8.6 times in FY2023 (P.Y: 6.2 times) and leverage (i.e., total outside liabilities/tangible net worth [TOL/ TNW]) of 0.9 times as on March 31, 2023 (P.Y: 1.5 times). RIPL's business profile derives strength from its reputed clientele comprising public sector entities and the extensive experience of the promoters in the construction sector.

The ratings are, however, constrained by the concentration risks associated with RIPL's order book entirely focussed on road segment projects. Moreover, top five projects account for ~74% of its order book. It is exposed to execution risk, given that over ~83% of orders in hand (by residual order value) are in the nascent stages of execution (less than 20% progress). Nevertheless, ICRA draws comfort from RIPL's track record in the construction business and successful completion of projects within the stipulated time (the company received bonus award of Rs. 23 crore from NHAI and MoRTH in FY2024 for early completion of two of projects). The ratings factor in the stiff competition in the construction sector, which limits the pricing flexibility. This is reflected in its operating margins, which have remained moderate, in the range of 10%-11.5% during FY2019 - FY2023. The presence of price escalation clauses mitigates the risk to an extent.

RIPL is expected to bid for hybrid annuity road projects in the near to medium term. The equity commitment towards the same will keep a check on its overall cash flows. Significant increase in equity commitments, if any, could pressurise the cash flows and remains a key monitorable. It is also exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationship with the clients provide comfort. The ratings consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and earnest money deposit (EMD). Nonetheless, ICRA draws comfort from RIPL's execution track record and absence of invocation of guarantees in the past.

ICRA has taken note of the penalty of Rs. 55.47 crore imposed by the National Green Tribunal (NGT) on the company in February 2023. The matter is currently sub judice. Any adverse ruling leading to material cash outflows and impacting its liquidity position would be a credit negative.

The Stable outlook on the long-term rating reflects ICRA's opinion that RIPL will be able to maintain its revenue growth on the back of an adequate order book, reputed clientele, comfortable leverage and coverage metrics.

Key rating drivers and their description

Credit strengths

Adequate order book position providing medium-term revenue visibility – RIPL had a pending order book of Rs. 2,747.8 crore as on September 30, 2023 (including the new orders from MoRTH worth Rs. 1,290.5 crore, where the letter of award (LOA) has been recently awarded), which is ~2.6 times of the operating income (OI) in FY2023 providing healthy medium-term revenue visibility. In H1 FY2024, the company generated revenues of around ~Rs. 349 crore. ICRA expects some YoY moderation in OI in FY2024, given a large order inflow in YTD FY2024 that may see execution ramp-up in the next fiscal year. However, the revenues are expected to sustain over Rs. 850 crore over the medium term.

Comfortable leverage and coverage metrics – RIPL witnessed a robust growth of ~56% in its OI in FY2023 (Rs. 983 crore in FY2023 from Rs. 628.3 crore in FY2022) owing to ramp-up in its execution. While its operating profitability moderated marginally, the absolute margins remained comfortable. Limited dependence on external borrowings and lower mobilisation advances supported its credit metrics as reflected in gearing (total debt/tangible net worth) ratio of 0.3 times (PY: 0.5 times), and TOL/ TNW of 0.9 times (PY: 1.5 times) as on March 31, 2023. The coverage metrics registered YoY improvement and remained comfortable with interest coverage ratio at 8.6 times (PY: 6.2 times) and DSCR of 7.1 times (PY: 2.7 times) in FY2023.

Experience of promoters and management in construction industry and reputed clientele – With over three decades of experience in the construction sector, RIPL is promoted by Mr. Rajendra Singh Bhamboo and Mr. Rajendra Kumar Dangi. The current order book comprises orders from reputed public sector entities with a low counterparty credit risk viz. MoRTH, National Highways and Infrastructure Development Corporation Limited (NHIDCL), PWD – Rajasthan and Madhya Pradesh Road Development Corporation (MPRDC) (funded by Asian Development Bank).

Credit challenges

Concentrated order book and execution risks – The company faces project concentration risk as the top five projects accounted for ~74% of the order book as on September 30, 2023. RIPL remains exposed to execution risks associated with contracts as ~83% of orders are in the nascent stage with less than 20% progress, including some projects, which are yet to receive the appointed date.

Competitive nature of industry impacting operating margins – Despite robust improvement in scale during FY2019 – FY2023, the operating margins remained moderate in the range of 10.0% – 11.5%. RIPL witnesses stiff competition in the construction segment with the presence of several players, which limits pricing flexibility. However, presence of price escalation clauses in most contracts mitigates the risk to profitability to an extent.

Risks associated with construction sector including sizeable non-fund-based exposure – RIPL is exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues, and pressure on profit margins. It is also exposed to sizeable contingent liabilities in the form of bank guarantees (~Rs. 276 crore as on September 30, 2023), mainly towards performance guarantee, mobilisation advance and EMDs. Nonetheless, ICRA draws comfort from RIPL's long presence and established relationship with clients, healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate with healthy cash flow from operations, supported by free cash and bank balances of ~Rs. 70 crore and adequate cushion in the form of unutilised fund-based limits (approximately Rs. 30 crore) as on September 30, 2023. It has debt repayment obligations of around Rs. 10-15 crore per annum in FY2024 and FY2025. It has modest capex plans, which should be comfortably funded from its cash flow from operations. In addition, RIPL enjoys flexibility through provision to avail mobilisation advances and realise retention money against bank guarantees.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a substantial and sustained improvement in the company's scale of operations and profitability margins, along with order book diversification while maintaining comfortable coverage and leverage metrics.

Negative factors – Negative pressure on the ratings could arise if there are significant delays in project execution leading to a decline in its scale and operating profitability, or deterioration in its liquidity position or if there is a higher-than-expected increase in exposure to developmental projects such as HAM or BOT projects, or any crystallisation of contingent liability, which materially impacts the company's liquidity position. A substantial rise in working capital intensity or TOL/TNW increasing over 1.3 times, on a sustained basis, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

RRSM Infra Private Limited (RIPL) is a construction company promoted by Mr. Rajendra Singh Bhamboo and Mr. Rajendra Singh Dangi, who have been associated with the construction sector since 1980. Earlier, the promoters were operating under a partnership firm (M/s Rajendra Singh Bhamboo). RIPL is involved in the business of civil construction, which primarily includes construction of roads and bridges. It has completed multiple projects in Rajasthan, Madhya Pradesh, Maharashtra, and is currently executing projects in these states, along with Assam.

The company is enlisted as "AA" class contractor with Public Works Department (PWD) Government of Rajasthan, Jaipur Development Authority (JDA), Water Resources Department (WRD) Government of Rajasthan and Rajasthan Housing Board (RHB).

Key financial indicators (audited)

RRSM Standalone	FY2022	FY2023
Operating income	628.3	983.8
PAT	37.3	56.8
OPBDIT/OI	11.3%	10.1%
PAT/OI	5.9%	5.8%
Total outside liabilities/Tangible net worth (times)	1.5	0.9
Total debt/OPBDIT (times)	0.9	0.5
Interest coverage (times)	6.2	8.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)						Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Dec 13, 2023	Oct 04, 2023	May 02, 2023	Mar 16, 2023	Sep 20, 2022	-	-
1 Cash credit	Long term	55.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+; Rating Watch with Developing Implications	[ICRA]BBB + (Stable)	-	-
2 Non-fund based – Bank guarantee	Long term and short term	364.50	-	[ICRA]A- (Stable)/ [ICRA] A2+	[ICRA]A- (Stable)/ [ICRA] A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+; Rating Watch with Developing Implications / [ICRA]A2; Rating Watch with Developing Implications	[ICRA]BBB + (Stable)/ [ICRA]A2	-	-
3 Unallocated	Long term and short term	130.50	-	[ICRA]A- (Stable)/[ICRA] A2+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term/ Short-term – Non-fund based – Bank guarantee	Very Simple
Long-term/ Short-term – Unallocated	NA

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	55.00	[ICRA]A-(Stable)
NA	**Bank guarantee**	NA	NA	NA	364.50	[ICRA]A-(Stable)/ [ICRA] A2+
NA	**Unallocated**	NA	NA	NA	130.50	[ICRA]A-(Stable)/ [ICRA] A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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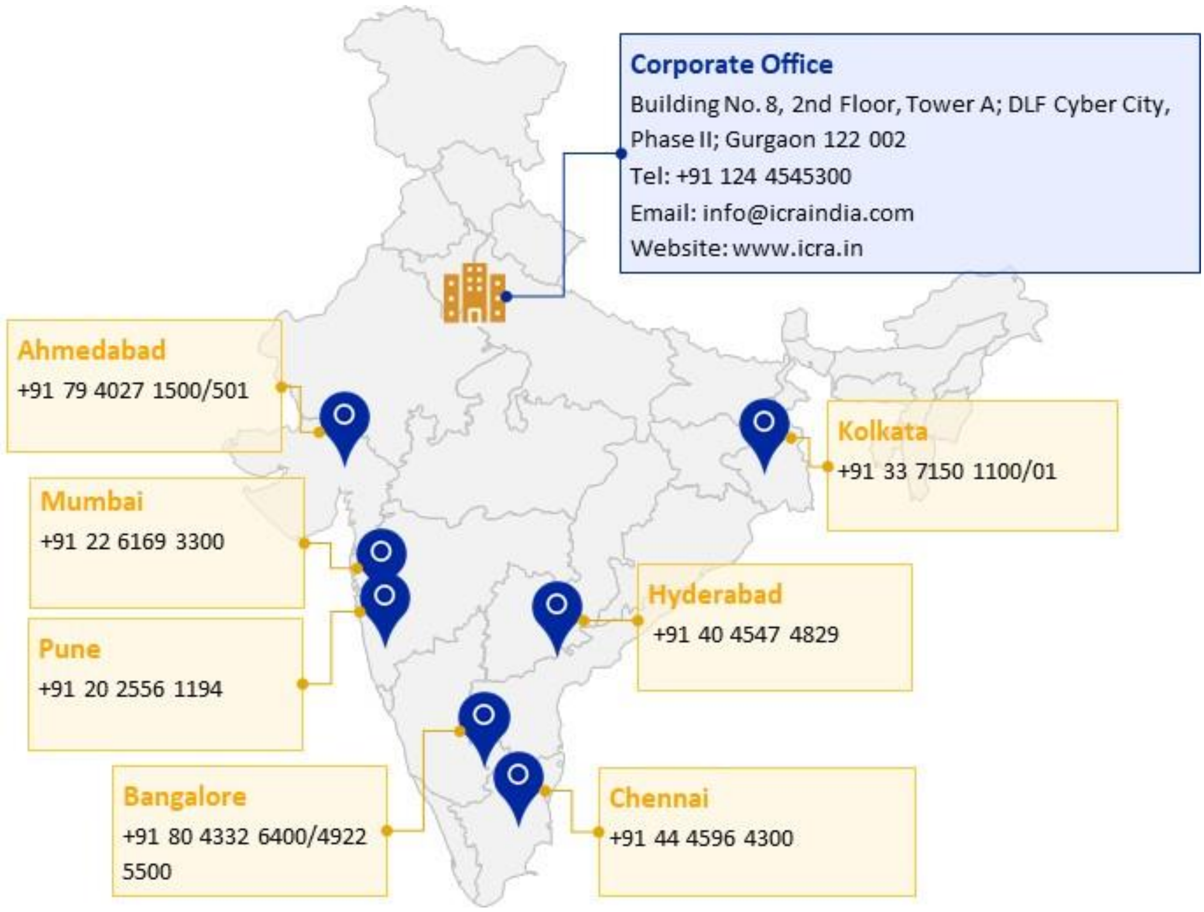

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