Raj Corporation Limited
Oct 14, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term bank Facilities	254.00	IVR A-/Negative (IVR Single A Minus with Negative Outlook)	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed with change in Outlook to Negative	**Simple**
Short Term bank Facilities	282.00	IVR A2+ (IVR A Two Plus)	IVR A2+ (IVR A Two Plus)	Reaffirmed	**Simple**
Total	**536.00**	**Five Hundred and Thirty-Six Crore Only**			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings (IVR) has reaffirmed the long-term rating at IVR A- with change in Outlook from Stable to Negative and short-term rating reaffirmed at IVR A2+ for the bank loan facilities of Raj Corporation Limited (RCL).

The Outlook has been changed from Stable to Negative on account of higher than anticipated corporate guarantees given to SPVs (HAM projects) resulting in significantly elevating the adjusted leverage ratio i.e. high adjusted overall gearing after incorporating debt from SPVs in total adjusted debt. While rating reaffirmation continues to take comfort from improved scale of operations over the years, healthy profitability coupled with strong order book position including HAM (Hybrid Annuity Model) projects under SPVs, strong project execution capabilities underpinned by completion of 3 HAM projects under SPVs on time. The rating further continues to draw comfort from experienced management, comfortable debt protection metrics and satisfactory operating cycle. However, these rating strengths are partially offset by project execution risk on account of HAM projects under SPVs, under execution & exposure to tender-based operations. The rating also remains constrained by moderate capital structure and order book concentration risk operating mainly out of Uttar Pradesh and Madhya Pradesh.

The Outlook is negative on account of significantly high amount of corporate guarantee being given to group companies or any further corporate guarantees being given going forward.

IVR has principally relied on the standalone audited financial results of RCL up to 31 March 2023 (refers to 1 April 2022 to 31 March 2023), provisional financials for FY24 (refers to 1 April 2023 to 31 March 2024), & projected financials from FY25 to FY27 (refers to 1 April 2024 to 31 March 2027), and publicly available information/clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of operations and maintaining the profitability & debt protection metrics at comfortable level.
- Sustained improvement in adjusted/consolidated gearing to a comfortable level and executing HAM projects under SPVs on time

Downward Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics and any significant time or cost overrun in HAM projects under SPVs.
- Moderation in capital structure with overall gearing (Total Debt/TNW) above 1.5x on sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management

The company has long track record of the operations of more than a decade in the same line of business and have successfully executed the projects in the past including HAM projects. The promoters of the company are well experienced in the construction sector and involved in day-to-day activities of the company, Mr. Manoj Kumar Yadav and Ms. Sarita Yadav have more than 3 decades of experience. Mr. Vikas Yadav and Mr. Priyanshu Yadav have more than 5 years of experience in the same line of business.

Growing scale of operations and healthy profitability

RCL has shown consistent growth in its total operating income at a CAGR of ~23% during FY21 to FY24 with an y-o-y growth of ~33% in FY24 (provisional) and registered total income (excluding GST) of Rs 652.17 crore in FY24 (provisional) against Rs 489.23 crore in FY23. The growth continues to be driven by steady execution of contracts by the company supported by consistent order inflow during the aforesaid period. The company has maintained a healthy profitability marked by healthy EBITDA margins of 22.87% in FY24 (provisional) against 22.03%in FY23 (PY: 20.69% in FY22) and profit after tax (PAT) margins also continue to be satisfactory at 13.95% in FY24 (provisional) against 13.37% n FY23 (PY:14.52% in FY22). Profit margins continue to be healthy due to focus of the company to execute high margin orders.

Strong order book position reflecting medium term revenue visibility

The company has strong total unexecuted order book position as on 31 March,2024, which is ~7 times of the FY24 turnover reflecting the medium-term revenue visibility of the company, the company has order book including HAM project under SPV at ~Rs 5601 Crs, whereas ~52% of the orders are under Engineering Procurement and Construction (EPC) mode while balance ~48% is HAM under its SPVs. This indicates a satisfactory near to medium term revenue visibility.

Comfortable debt protection metrics

The debt protection metrics of the company remains comfortable marked by interest service coverage ratio (ISCR) of 9.82x in FY24 provisional (PY: 9.37x) and debt service coverage ratio (DSCR) is comfortable at 2.40x in FY24 provisional (PY: 2.25x). Total debt to EBIDTA ratio stood satisfactory at 2.68x in FY24 provisional, though deteriorated from 1.39x in FY23, owing to increase in overall debt, but still at comfortable level.

Key Rating Weaknesses

Project execution risk & exposure to tender-based operations

Given the nature and size of the projects awarded mainly though Government entity, the company is exposed to inherent risk in terms of delays in project execution & cost overrun of certain orders which may arise due to arranging infrastructure, delay in land acquisitions & environmental clearances, fluctuation in raw material prices, besides delay in sanctioning of required working capital limits for the completion of orders, may result in a delay in the realization of revenue growth & could affect the profit margins adversely. The company is exposed to project execution risk as 4 of its projects (including SPVs) are at its initial stage of execution. In addition to that the company majorly procures orders which are awarded through the tender-based system. This exposes the company to the risk associated with the tender-based business, which is characterized by intense competition.

Moderate capital structure

The capital structure of the company remained comfortable at standalone level over the past financial years underpinned by its strong net worth (TNW) base. However, overall gearing has increased to 0.86x in FY24 provisional against 0.40x in FY23, mainly due to addition of machinery loans & increased working capital debt for the execution of increased order book. In addition to that, adjusted gearing increased significantly in FY24 provisional, due to adjustment in net worth (Adj. TNW) on account of significant investment by the company in their SPVs for new HAM projects, besides increase in overall debt in FY24 provisional. The adjusted overall gearing on adjusted debt (including debt of all SPVs) & adjusted tangible net worth is high above 18x in FY24 provisional considering the size of significant investment (loans & advances) outflows in SPVs and adjusted overall debt (assuming corporate guarantee to SPVs)., however expected to come down in next 3 fiscal years (FYs). The total indebtedness of the company as reflected by TOL/TNW of 1.06x in FY24 provisional (PY:0.70x), while adjusted indebtedness i.e. TOL/Adj. TNW is high above 19x in FY24 provisional (PY: 0.95x).

Order book concentration risk

RCL is majorly engaged in the road construction, besides it also executes electrical work projects for Government authorities. All the orders are concentrated in the state of Uttar Pradesh and Madhya Pradesh mainly, which exposes RCL to geographical concentration risks associated with the number of tenders floated in the state, changes in government policy, political instability and occurrences of natural calamities. Nonetheless, the geographical concentration risk is offset by the operational synergies derived by the proximity of projects to one another in terms of facilitating smooth movement and pooling of manpower and machinery.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria on assigning rating outlook
Policy on Default Recognition and Post-Default Curing Period
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

RCL has generated a cash accrual of ~Rs.117.83 crore in FY24 (provisional) against the debt repayment obligations of Rs. 40.13 crore for the same period. Further, RCL liquidity position is expected to be adequate marked by sufficient cushion in expected cash accruals vis-à-vis its repayment obligations in FY25-FY27. Average fund-based utilization of bank limits for last 12 months ended May 2024 stood at ~53% indicating sufficient buffer to meet incremental requirements. Further, the company has reported ~cash and bank balance of Rs.90.24 crore as on March 31, 2024 (provisional) strengthening the liquidity of the company. Current ratio also remains comfortable at 1.51x in FY24 (provisional)

About the Company

Raj Corporation Limited (RCL), incorporated in 2008, is promoted by Mr. Manoj Kumar Yadav, Ms. Sarita Yadav, Mr. Vikas Yadav and Mr. Priyanshu Yadav. The company is based out of Mainpuri, Uttar Pradesh. RCL is engaged in construction of infrastructure projects including road projects and undertaking electrical work projects & other infra projects. It undertakes civil construction activity for State and Central Government entities like Dakshinanchal Vidyut Vitran Nigam Limited, Madhyanchal Vidyut Vitran Nigam Limited, National Highway Authority of India, Public Works Department etc. The company is registered as 'Class 1 contractor' with the Government of Uttar Pradesh.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income ^	489.23	652.17
EBITDA	107.79	149.17

PAT	65.94	92.49
Total Debt	149.65	399.74
Tangible Net Worth	372.63	465.12
EBITDA Margin (%)	22.03	22.87
PAT Margin (%)	13.37	13.95
Overall Gearing Ratio (x)	0.40	0.86
Interest Coverage (x)	9.37	9.82

** Classification as per Infomerics' standards.*
^Total Operating Income is net of GST.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (2024-25)				Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Current Rating	Date(s) & Rating(s) assigned in 2024-25 (July 10,2024)	Date(s) & Rating(s) assigned in 2023-24 (May17, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term bank Facilities	Long Term	254.00	IVR A-/ Negative	IVR A- /Stable	IVR BBB+/ Stable	-	-
2.	Short Term bank Facilities	Short Term	282.00	IVR A2+	IVR A2+	IVR A2	-	-

Analytical Contacts:

Name: Raman Thakur Tel: (011) 45579024 Email: raman.thakur@infomerics.com	Name: Vipin Jindal Tel: (011) 45579024 Email: vipin.jindal@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Fund-Based Bank Facilities - WCTL/TL	NA	NA	NA	Sep,2024 & June,2029 for HDFC bank Dec,2025 for Bandhan Bank	147.00	IVR A-/ Negative
Fund Based Bank Facilities - CC	NA	NA	NA	-	107.00	IVR A-/ Negative

Non-Fund Based Bank Facilities -BG	NA	NA	NA	-	282.00	IVR A2+

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-RajCorporation-oct24.pdf

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

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.