Press Release

Raj Corporation Limited

May 17, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	30.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	202.00	IVR A2 (IVR A Two)	Assigned	Simple
Proposed Short/ Long Term Bank Facilities	18.00	IVR BBB+/Stable/ IVR A2 (IVR Triple B Plus with Stable Outlook/ IVR A Two)	Assigned	Simple
Total	**250.00**	**Rupees Two Hundred Fifty Crore Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuations and Ratings Private Limited (IVR) has assigned long-term rating of IVR BBB+ with a Stable Outlook and short term rating of IVR A2 for the bank loan facilities of Raj Corporation Limited (RCL).

The rating draws comfort from its experienced promoters, growing scale of operations and healthy profitability, strong order book position reflecting satisfactory medium-term revenue visibility and comfortable capital structure with healthy debt protection metrics. However, these strengths are partially offset by exposure to project execution risk, order book concentration risk and highly fragmented & competitive nature of the construction sector.

IVR has principally relied on the standalone audited financial results of RCL upto 31 March 2022, provisional financials for FY23 and projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis along.
- Sustenance in the capital structure.

- Management of working capital requirements efficiently with improvement in liquidity position.

Downward Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics on a sustained basis.
- Moderation in capital structure with moderation in overall gearing to over 1.5x.
- Elongation in the operating cycle impacting the liquidity profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management

The company was incorporated in 2008 and is promoted by Ms. Sarita Yadav, Mr. Manoj Kumar Yadav, Mr. Vikas Yadav and Mr. Priyanshu Yadav. The promoters have an extensive experience of over a decade in the construction sector.

Growing scale of operations and healthy profitability

RCL has achieved consistent growth in its total operating income at a CAGR of ~26% during FY20 to FY23 with an y-o-y growth of ~17% in FY23 (Provisional). The growth was largely 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 margin and satisfactory PAT margin. RCL witnessed improvement in its EBIDTA margin from 9.42% in FY20 to 21.46% in FY23 (provisional). The growth in operating margin was mainly due to higher focus of the company to execute high margin orders. With growth in EBITDA margin, the PAT margin of the company has also improved from 5.69% in FY20 to 12.65% in FY23 (Provisional). However, in FY23 the PAT margin moderated marginally mainly due to rise in finance charges attributable to rise in total debt in FY23.

Strong order book position reflecting satisfactory medium-term revenue visibility

RCL has a strong unexecuted order book of Rs.4239.71 crore (including LOA of Rs. 2947.80 crore) as on March 21, 2023, which is about 13x of the total operating income reported in FY23 (provisional). This indicates a satisfactory near to medium term revenue visibility.

Comfortable capital structure with healthy debt protection metrics

The capital structure of the company remained comfortable over the past three account closing dates underpinned by its strong net worth base. The company has a net worth base of Rs.379.20 crore as on March 31,2023. The debt equity ratio and the overall gearing ratio of the company stood comfortable at 0.35x and 0.40x respectively as on March 31,2023 (provisional) as against 0.19x and 0.24x respectively as on March 31,2022. The total indebtedness of the company as reflected by TOL/TNW stood comfortable at 0.74x as on March 31,2023 (provisional) as against 0.76x as on March 31,2022 on account of decrease in creditors of the company and increase in tangible net worth. The debt protection metrics stood comfortable marked by interest service coverage ratio (ISCR) of 22.69x in FY23 (FY22: 15.09x). Total Debt to GCA stood satisfactory at 1.66 years as on March 31, 2023 (provisional) as against 1.11 years as on March 31,2022.

Key Rating Weaknesses

Exposure to project execution risk

The company is exposed to high project execution risk as most of its projects are at its initial stage of execution.

Order book concentration risk

RCL is majorly engaged in the road construction and electrical work projects for government authorities. Also, all the orders are concentrated in the state of Uttar Pradesh and Madhya Pradesh, 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.

Highly fragmented & competitive nature of the construction sector

The infrastructure/ construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Analytical Approach: For arriving at the ratings, IVR has analysed RCL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria for assigning rating outlook

Liquidity – Adequate

RCL has generated a cash accrual of Rs.90.83 crore in FY23 (provisional) against the debt repayment obligations of Rs.28.70 crore. Further, RCL liquidity position is adequate marked by sufficient cushion in expected accruals vis-à-vis its repayment obligations in FY23-FY25. Average fund based utilization of bank limits for last 12 months ended March 2023 stood at ~57% indicating sufficient buffer to meet incremental requirements. Further, the company has reported cash and bank balance of Rs.21.62 crore as on March 31, 2023 (provisional). All these factors reflect adequate liquidity position of the company.

About the Company

Raj Corporations Limited (RCL), incorporated in 2008, is promoted by Ms. Sarita Yadav, Mr. Manoj Kumar Yadav, Mr. Vikas Yadav and Mr. Priyanshu Yadav. The company is based at Mainpuri, Uttar Pradesh. RCL is engaged in construction of infrastructure projects including road projects and undertaking electrical work 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 with bidding eligibility for the tenders up to Rs. 800.00 crore.

Financials (Standalone):

(Rs. Crore)

For the year ended*	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	487.96	569.74
EBITDA	90.42	122.26
PAT	64.00	72.51
Total Debt	74.71	150.70
Tangible Net worth	306.69	379.20
EBITDA Margin (%)	18.53	21.46
PAT Margin (%)	13.02	12.65
Overall Gearing Ratio (x)	0.44	0.66

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None.

Any other information: Nil

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	30.00	IVR BBB+/ Stable	-	-	-
2.	Bank Guarantee	Long Term	202.00	IVR A2	-	-	-
3.	Proposed Loan	Short/ Long Term	18.00	IVR BBB+; Stable/ IVR A2	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facilities - Cash Credit	-	-	-	30.00	IVR BBB+/ Stable
Short Term Facilities - Bank Guarantee	-	-	-	202.00	IVR A2
Short/Long Term Facilities - Proposed	-	-	-	18.00	IVR BBB+; Stable/ IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-RajCorporation-may23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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 Complexity Level of Rated Instruments/Facilities.