August 18, 2023

R.V. Rayanam: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Overdraft	-	10.00	[ICRA]BB- (Stable); reaffirmed
Long-term – Fund-based limits – Cash credit	16.00	4.00	[ICRA]BB- (Stable); reaffirmed
Long-term – Non-fund based limits	17.00	17.00	[ICRA]BB- (Stable); reaffirmed
Long-term – Fund-based limits – Working capital term loan	-	1.00	[ICRA]BB- (Stable); reaffirmed
Long-term – Unallocated limits	-	1.00	[ICRA]BB- (Stable); reaffirmed
Total	**33.00**	**33.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in R.V. Rayanam's (RVR) healthy order book position of Rs. 111.7 crore as on March 31, 2023 (3.0 times of the FY2023 revenues) providing medium-term revenue visibility and satisfactory debt coverage metrics with interest cover likely to remain above 2.0 times going forward. ICRA takes note of the extensive experience of the partners in the execution of civil contracts and its recognition as a special class contractor by the Government of Andhra Pradesh (AP), enabling the firm to participate in various projects of the state government departments.

The rating is, however, constrained by RVR's small scale of operations, which declined by 46% to Rs. 37.3 crore in FY2023 owing to slower execution of order on account of delay in receipt of payments from its customers. The scale of operations is expected to remain small in the coming year, given the slowdown in order execution. The entire order book is confined to AP and therefore exposed to high geographical concentration risk. Timely realisation of payments from the government department remains crucial for RVR's credit profile and is a key monitorable. RVR is exposed to risks inherent in a partnership firm, including the possibility of capital withdrawals, which may affect the capital structure and liquidity position.

The Stable outlook on the rating reflects ICRA's belief that RVR's revenues are expected to benefit from the experience of its partners in the construction segment and satisfactory operational track record.

Key rating drivers and their description

Credit strengths

Significant experience of partners in execution of civil contracts – RVR's partners have more than four decades of experience in executing civil contracts. Further, the firm is recognised as a special class contractor by the AP Government, which enables it to participate in various projects of the state government departments. RVR is primarily involved in execution of building construction contracts for various government departments.

Heathy order book position provides medium-term revenue visibility – RVR has a healthy order book of Rs. 111.7 crore as on March 31, 2023, which is 3.0 times of the FY2023 revenues, providing medium-term revenue visibility. The firm's ability to secure new orders and improve work execution remains the key monitorable in the near term.

Credit challenges

Small scale of operations – RVR's scale of operations is small with revenues of Rs. 37.3 crore in FY2023, which declined by 42.6% owing to slower execution of order on account of delay in receipt of payments from its customers. The revenues for FY2024 are expected to be in the range of Rs. 30.0 crore-Rs. 33.0 crore.

High geographical and sectoral concentration risks – The geographical concentration risk remains high with the order book limited to AP. Further, the firm's work orders are mostly confined to the execution of building construction for various departments of the AP Government. Timely realisation of payments from the government department remains crucial for RVR's credit profile and remains a key monitorable.

Risks related to partnership nature of the firm – RVR is exposed to risks inherent in a partnership firm, including the possibility of capital withdrawals, which may affect the capital structure and liquidity position. In FY2023, the partners have withdrawn around Rs. 8.8 crore.

Liquidity position: Adequate

The firm's liquidity position is adequate with a cushion of over ~Rs. 5.0 crore in working capital limits as on June 30, 2023. Further, low repayment obligations of Rs. 0.33 crore and absence of any major capex plans in FY2024 would support its liquidity position.

Rating sensitivities

Positive factors – The rating could be upgraded if the firm demonstrates a significant improvement in revenues while maintaining its operating margins and liquidity position.

Negative factors – The rating could be downgraded if any decline in revenues or margins, or any stretch in the receivables adversely impacts the liquidity position. Specific credit metrics that could lead to a rating downgrade include the interest coverage ratio reducing below 2 times on a sustained basis.

Analytical approach

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

About the company

R. V. Rayanam (RVR) is a partnership firm established in August 2005 and is a special class contractor recognised by the Government of Andhra Pradesh (AP). It is a Kakinada-based construction firm promoted by Mr. R. V. Rayanam, who has more than four decades of experience in civil construction industry. RVR is in the business of execution of civil, electrical, mechanical and engineering contracts, primarily for departments under the AP Government.

Key financial indicators

	FY2022	FY2023*
Operating income	64.4	37.3
PAT	4.1	3.8
OPBDIT/OI	12.1%	13.2%
PAT/OI	6.3%	10.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.9
Total debt/OPBDIT (times)	0.3	2.3
Interest coverage (times)	5.1	4.7

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

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 June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Aug 18, 2023	Sep 23, 2022	Nov 30, 2021	Sep 10, 2021	Aug 27, 2020
1	Fund-based Limits – Overdraft	Long term	10.0	--	[ICRA]BB- (Stable)	-	-	-	-
2	Fund-based limits – Cash credit	Long term	4.00	--	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)
3	Non-fund based limits	Long term	17.00	--	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)
4	Fund-based – WCTL	Long term	1.00	0.6	[ICRA]BB- (Stable)	-	-	-	-
5	Unallocated limits	Long term	1.00	--	[ICRA]BB- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits – Overdraft	Simple
Fund-based limits – Cash credit	Simple
Non-fund based limits	Very Simple
Fund-based – WCTL	Simple
Unallocated limits	Not Applicable

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	Fund-based limits – Overdraft	NA	NA	NA	10.00	[ICRA]BB- (Stable)
NA	Fund-based limits – Cash credit	NA	NA	NA	4.00	[ICRA]BB- (Stable)
NA	Non-fund based limits	NA	NA	NA	17.00	[ICRA]BB- (Stable)
NA	Fund-based limits – WCTL	FY2021	NA	FY2025	1.00	[ICRA]BB- (Stable)
NA	Unallocated limits	NA	NA	NA	1.00	[ICRA]BB- (Stable)

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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