

May 08, 2024

## R.R. Infraa Construction: 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	80.00	100.00	[ICRA]BBB (Stable); reaffirmed/assigned for enhanced limits
Short-term – Non-fund based limits	90.00	150.00	[ICRA]A3+; reaffirmed/assigned for enhanced limits
<b>Total</b>	<b>170.00</b>	<b>250.00</b>	

\*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 entities are managed by the same promoter group, operate in similar line of business leading to strong business and financial linkages between the two entities.

The ratings favourably factor in RRIC's comfortable financial profile, supported by healthy operating margins (over 19%), low leverage and comfortable coverage metrics (TOL/TNW of 0.3 times and interest cover of 14.1 times as on March 31, 2023). The ratings continue to consider the extensive experience of the promoters in the construction segment and the Group's established track record in executing road construction projects for a reputed clientele, consisting of public sector entities.

ICRA notes that the current order book (OB) of ~Rs. 400 crore (translating into OB/OI of ~0.5 times compared to OB of Rs. 1,242 crore as on October 31, 2022) provides limited revenue visibility and there has been a steady decline in OB position in the recent years. RRIC's ability to successfully build-up its OB and improve revenue visibility remains crucial from the credit perspective. It has bid for hybrid annuity road projects (NHAI-HAM projects) and is expected to continue bidding for the same 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 will remain a key monitorable.

The ratings are also constrained by the Group's highly concentrated order book with orders in hand pertaining only to Tamil Nadu, which exposes it to region-specific economic and political risks. Moreover, it is exposed to client concentration risk with top three customers accounting for 85% of the order book as on November 30, 2023. Nonetheless, the risk of bad debt write-off is mitigated to a large extent as the Group's clientele comprises entirely of government entities. The Group's working capital intensity increased in FY2023 (NWC/OI of 12% from 5% in FY2022) owing to rise in receivables days. The same is expected to normalise by the end of Q1 FY2025. Any slippages in execution or built-up of receivables could impact the profitability and liquidity position of the Group and therefore remain a key monitorable.

The ratings are exposed to the cyclicity 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. The ratings consider the Group's exposure to sizeable contingent liabilities in the form of bank guarantees (BGs), mainly for contractual performance and earnest money deposit (EMD). Nonetheless, ICRA draws comfort from RIPL's execution track record and absence of invocation of guarantees in the past. The ratings also consider the risks associated with the partnership nature of the entity in terms of capital withdrawal.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will likely sustain its comfortable leverage and coverage metrics even as its revenue growth may moderate in FY2025, given the modest OB position as on March 31, 2024. Further, the outlook underlines ICRA's expectation that the entity's incremental capex and/or investment, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics.

## Key rating drivers and their description

### Credit strengths

**Healthy scale of operations** – The Group's operating income (OI) witnessed robust growth over the last five years, at a CAGR of ~36%, to Rs. 740.4 crore in FY2023. The growth continued in FY2024 and it is expected to report an OI of Rs. 810 crore, reflecting a YoY growth of ~10%. The improvement in scale was supported by healthy operating margins, which remained comfortable at above 15%. In FY2023, the same improved on a YoY basis to 17.0% (PY: 15.7%) and are estimated to be over 19% in FY2024 (provisional data), aided by operating leverage benefits, efficient project management, centralised raw material procurement for all the ongoing projects and the Group's adequate asset base, which reduces its reliance on hiring equipment. Going forward, the Group's ability to sustain its scale and OPM, given the decline in OB, will be crucial from the credit perspective.

**Comfortable capital structure and coverage indicators** – The Group's capital structure remains comfortable, evidenced by total debt/tangible net worth of 0.3 times and TOL/TNW of 0.4 times as on March 31, 2023 (improved from 0.4 times and 0.5 times, respectively, from March 31, 2022). The same is aided by its considerable net worth and relatively lower reliance on external borrowings. The Group's coverage indicators continue to remain healthy, with an interest coverage and total debt/OPBITDA of 14.1 times and 0.7 times, respectively, in FY2023. Besides, the DSCR improved to 6.6 times in FY2023 from 3.3 times in FY2022, supported by higher OPM and 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 remain 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. The Group has a proven execution capability in road projects and has executed several projects for various government agencies, which has supported its order inflows and growth in scale over the years.

### Credit challenges

**Moderate order book position providing limited revenue visibility; concentrated order book in terms of clients, segments, and projects** – The ratings remain constrained by the moderate order book position (~Rs. 400 crore), which provides limited near-term revenue visibility (OB/OI of < 1 times as on March 31, 2024, considering FY2024 provisional revenues). Further, most of the projects executed in the past and orders in hand pertain to the Tamil Nadu region, which exposes the firm to region-specific economic and political risks. The top three customers accounted for 85% of the order book as on November 30, 2023. Any delay in execution or payments can affect the Group's revenues. The Group also faces high client concentration risk, with a major portion of its revenues being derived from the state highways bodies. Nonetheless, the counterparty risk is mitigated to an extent as the Group's clientele comprises entirely of government entities.

**Stiff competition in industry and sizeable exposure to contingent liability** – 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 ability to secure projects consistently, amidst the prevailing competition, remains the key to sustain its revenue growth and will be a key credit monitorable. The Group is exposed to execution risks associated with construction contracts. It is susceptible to the risk of sizeable contingent liabilities in the form of bank guarantees (Rs. 83.1 crore as on March 13, 2024). Nonetheless, the favourable execution track record and no instances of crystallisation of bank guarantees is a positive. While the Group has provided some BGs against 100% margin, the recent enhancement in overall BG limits provides comfort.

**Risks associated with the proprietorship/partnership nature of the entities** – The Group is exposed to risks arising due to the proprietorship nature of R. Ramu and partnership nature of R.R. Infra Construction, such as that of withdrawal of capital and limited ability to raise capital, among others. However, ICRA has taken comfort from the relatively limited capital withdrawal (compared to the accruals) in the past. The management plans to convert RRIC into a private limited company in the near to medium term.

## Liquidity position: Adequate

The Group's liquidity is expected to remain **adequate**, driven by healthy cash flows from operations and supported by availability of unencumbered cash balances (~Rs. 53 crore as on March 31, 2024) and buffer in its fund-based working capital facilities (~Rs. 36.4 crore as on December 31, 2023) and non-fund based facilities (~Rs. 67 crore as on March 13, 2024). The Group has term loan repayment obligations of ~Rs. 1 crore in FY2025 and no major capex plans, 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 healthy order accretion and timely execution of the same, while diversifying the 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 large debt-funded capital expenditure or significant exposure towards BOT projects or sizeable capital withdrawal leading to weakening in liquidity and leverage 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Construction</a>
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 Construction 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 the state of Tamil Nadu. Mr. R Ramu has another 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. The management plans to shut down operations under R Ramu and convert R.R. Infraa Construction to a private limited company in the near to medium term.

## Key financial indicators (audited)

RRIC Consolidated	FY2022	FY2023	FY2024*
Operating income	724.4	740.4	810.0
PAT	60.4	68.0	104.0
OPBDIT/OI	15.7%	17.0%	19.7%
PAT/OI	8.3%	9.2%	12.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	-
Total debt/OPBDIT (times)	0.8	0.7	-
Interest coverage (times)	9.7	14.1	22.7

Source: Firm, ICRA Research; \*Provisional Numbers

All ratios as per ICRA's calculations; Amount in Rs. crore; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 08, 2024	-	Feb 07, 2023	Dec 09, 2021
1 Fund-based – Cash credit	Long term	100.00	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Non-fund based limits	Short term	150.00	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Short-term – Non-fund based limits	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash credit	NA	NA	NA	100.00	[ICRA]BBB (Stable)
NA	Non-fund based limits	NA	NA	NA	150.00	[ICRA]A3+

Source: RRIC

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#### Annexure II: List of entities considered for consolidated analysis

/Entity Name	RRIC's Ownership	Consolidation Approach
R. R. Infraa Constructions	-	Full Consolidation
R Ramu	-	Full consolidation

Source: RRIC; ICRA Research

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