

August 27, 2024

Raghava Constructions (India) Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Cash credit	46.80	100.0	[ICRA]BBB- (Stable); reaffirmed and outlook revised to Stable from Negative
Long-term - Proposed fund facilities	53.20	-	-
Long-term/Short-term – Non-fund based – Bank guarantee	340.00	490.0	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed and outlook revised to Stable from Negative
Long-term/Short-term – Non-fund based – Letter of credit	26.40	26.40	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed and outlook revised to Stable from Negative
Long-term/Short-term – Proposed non-fund based facilities	174.60	24.60	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed and outlook revised to Stable from Negative
Long-term/Short-term - Unallocated limits	159.00	159.00	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed and outlook revised to Stable from Negative
Total	800.00	800.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Stable from Negative reflects ICRA's expectations that Raghava Constructions (India) Private Limited (RCIPL) will benefit from the improvement in liquidity position with receipt of sticky receivables from its key customers. ICRA expects the liquidity position to remain satisfactory going forward, with majority of order book from the Central Government funded projects where payments are generally received in a timely manner. Around 50% of the projects in the order book is funded by the Central Government or has finance tie-ups. The company commenced billing in these projects and timely ramp-up in execution of these projects will be a key rating monitorable. The order book stood healthy at Rs.10,073.8 crore as on June 30, 2024, providing medium-term revenue visibility. The ratings also consider adequate coverage metrics with interest coverage of 6.0 times for FY2024 and low working capital intensity of 4% in FY2024 with timely receipt of payments from its key customers. The ratings also positively factor in the strong operational track record and experience of more than two decades in executing irrigation and road projects in Telangana and Andhra Pradesh.

The ratings are, however, constrained by the high project concentration risk with top five orders accounting for 62.8%, high geographic concentration risk with top two states accounting for 94.4% of the order book (Telangana and Andhra Pradesh) and high segment concentration risk as 91% of the orders is from electrical, water supply and irrigation works. Further, RCIPL is exposed to execution risk as 85.3% of the order book is in the nascent stages of execution (<10% executed as on June 30, 2024). Majority of the working capital requirements are funded through extended credit period from vendors/sub-contractors and mobilisation advances resulting in a leveraged capital structure with TOL/TNW of 1.7 times as on March 31, 2024. The ratings are also constrained by high investments and advances to Group companies which stood at Rs. 142.3 crore and was 25% of RCIPL's net worth as on March 31, 2024. Moreover, the company has given corporate guarantee to one of its Group companies, Raghava Lifesciences Private Limited (RLPL). Any incremental investments or advances or corporate guarantees to Group entities which could have a material impact on leverage or liquidity position remains a key monitorable. The ratings also note the stiff competition in the construction sector, which could put pressure on new order addition and RCIPL's exposure to sizeable contingent liabilities in the form of bank guarantees. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that RCIPL will continue to benefit from its healthy order book position and execution, along with timely receipt of payments from its key customers.

Key rating drivers and their description

Credit strengths

Healthy order book position – The order book is healthy at Rs. 10,073.8 crore as on June 30, 2024, providing medium-term revenue visibility. The fresh order addition has remained strong with orders worth Rs. 2,198 crore added in FY2024. Further, the company expects sizeable order addition going forward, which supports its revenue growth.

Above average financial risk profile – The company had comfortable interest coverage of 6.0 times as on March 31, 2024, on account of healthy operating profits. With expected lower debt levels and healthy operating profits, the coverage metrics are expected to remain comfortable in the medium term. The net working capital intensity stood low at 4% in FY2024, supported by high trade payables and sizeable mobilisation advances.

Established operational track record with experienced promoters – RCIPL has a strong operational track record of more than two decades in executing irrigation, roads and water-supply projects in Telangana and Andhra Pradesh. Although more than ~91% of the projects are from the irrigation, water supply and electrical work segments, RCIPL's track record in execution mitigates the risk to an extent.

Credit challenges

Leveraged capital structure and investments in Group companies – The leverage of the company stood high with TOL/TNW at 1.7 times as on March 31, 2024, owing to high trade creditors, mobilisation advances and retention money payable to subcontractors. The company has high investments in Group companies which stood at Rs. 142.3 crore as on March 31, 2024. Adjusted for these investments, the adjusted TOL/TNW stood higher at 2.2 times as on March 31, 2024. ICRA also notes that the company has provided corporate guarantee for term loan availed by Raghava Life Sciences Private Limited. Any incremental investments or advances to Group entities which could have a material impact on liquidity will remain a key monitorable.

Concentrated order book - The company faces high geographic concentration risk with the top two states (Andhra Pradesh and Telangana) accounting for 94.4% of the order book as on June 30, 2024. It also faces high project concentration risk with top five orders accounting for 62.8% and high segment concentration risk as 91% of the order book is from electrical, water supply and irrigation works. Around 85% of the order book is in nascent stages of execution (less than 10% of execution) triggering high execution risk. Securing all the design and other approvals in a timely manner for the orders will be key to achieve growth in revenues.

Stiff competition in construction industry and sizeable non-fund based exposure – RCIPL is exposed to the inherent cyclicity in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in new order inflows, revenues, and pressure on margins. Further, the company has sizeable contingent liabilities in the form of bank guarantees and letter of credit (Rs. 335.1 crore as on June 30, 2024), mainly towards performance guarantee, mobilisation advance, retention money and material purchase. Nonetheless, ICRA draws comfort from its execution track record and absence of any bank guarantee invocations in the past.

Liquidity position: Adequate

RCIPL's liquidity position is adequate with cash balances of Rs. 240.8 crore as on March 31, 2024, and sufficient cushion available in fund-based limits. The average utilisation of its fund-based limits for the 12-month period ending July 2024 stood moderate at 41%. The company has debt obligations of ~Rs. 20.0 crore, capex plans of Rs. 25.0 crore for FY2025, which can be comfortably met through cash flow from operations. Further, enhancement in working capital limits is expected to support its liquidity position in the near term.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of RCIPL in case of significant increase in contract revenues along with diversification of order book while maintaining its profitability margins and liquidity position.

Negative factors – Pressure on RCIPL’s ratings could arise, if there are delays in execution of projects resulting in lower revenues, or elongation in receivable days and/or any increase in Group investments or advances adversely impacting the liquidity position. A specific credit metric for a downgrade is if interest cover is below 3 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	RCIPL has provided corporate guarantee to Raghava Lifesciences Private Limited and is considered in ICRA’s assessment.

About the company

Raghava Constructions commenced operations in Khammam, Telangana in 1991 as a sole proprietary concern. It was later reconstituted as a partnership firm in 2003 before being a private limited company in 2019. Mr. Ponguleti Prasad Reddy (brother of Ponguleti Srinivas Reddy, the current revenue minister of Telangana) is the managing director of the company. The company is a registered special class-1 contractor with the departments of road and building (R&B) and irrigation & CAD in Telangana and Andhra Pradesh (AP), The company predominately executes irrigation, roads and drinking water projects.

Key financial indicators

	FY2023	FY2024*
Operating income	1,203.8	1,404.2
PAT	63.4	86.4
OPBDIT/OI	10.8%	12.0%
PAT/OI	5.3%	6.2%
Total outside liabilities/Tangible net worth (times)	1.8	1.7
Total debt/OPBDIT (times)	1.1	0.6
Interest coverage (times)	6.8	6.0

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA’s calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA

CRA	Ratings	Date
Infomerics	IVR BB- (Negative)/IVR A4; ISSUER NOT COOPERATING	Aug 29, 2023

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years						
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	100.0	27-Aug-2024	[ICRA] BBB-(Stable)	16-Jun-2023	[ICRA]BBB-(Negative)	31-May-2022	[ICRA]BBB (Stable)	-	-
Proposed fund facilities	Long Term	-	-	-	16-Jun-2023	[ICRA]BBB-(Negative)	31-May-2022	[ICRA]BBB (Stable)	-	-
Bank Guarantee	Long Term/Short Term	490.0	27-Aug-2024	[ICRA] BBB-(Stable)/[ICRA]A3	16-Jun-2023	[ICRA]BBB-(Negative)/[ICRA]A3	31-May-2022	[ICRA]BBB (Stable)/[ICRA]A3+	-	-
Letter of credit	Long Term/Short Term	26.40	27-Aug-2024	[ICRA] BBB-(Stable)/[ICRA]A3	16-Jun-2023	[ICRA]BBB-(Negative)/[ICRA]A3	31-May-2022	[ICRA]BBB (Stable)/[ICRA]A3+	-	-
Proposed Non Fund based facilities	Long Term/Short Term	24.60	27-Aug-2024	[ICRA] BBB-(Stable)/[ICRA]A3	16-Jun-2023	[ICRA]BBB-(Negative)/[ICRA]A3	31-May-2022	[ICRA]BBB (Stable)/[ICRA]A3+	-	-
Unallocated limits	Long Term/Short Term	159.00	27-Aug-2024	[ICRA] BBB-(Stable)/[ICRA]A3	16-Jun-2023	[ICRA]BBB-(Negative)/[ICRA]A3	31-May-2022	[ICRA]BBB (Stable)/[ICRA]A3+	-	-

Complexity level of the rated instrument

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 – Non Fund based – Letter of credit	Very Simple
Long-term/Short-term – Proposed Non Fund based facilities	Very Simple
Long-term/Short-term - 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	Cash Credit	NA	NA	NA	100.0	[ICRA]BBB-(Stable)
NA	Bank Guarantee	NA	NA	NA	490.0	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Letter of credit	NA	NA	NA	26.40	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Proposed Non Fund based facilities	NA	NA	NA	24.60	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Unallocated limits	NA	NA	NA	159.00	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – The company provided corporate guarantee for debt of Raghava Life sciences Private Limited and is considered for RCIPL’s rating assessment.

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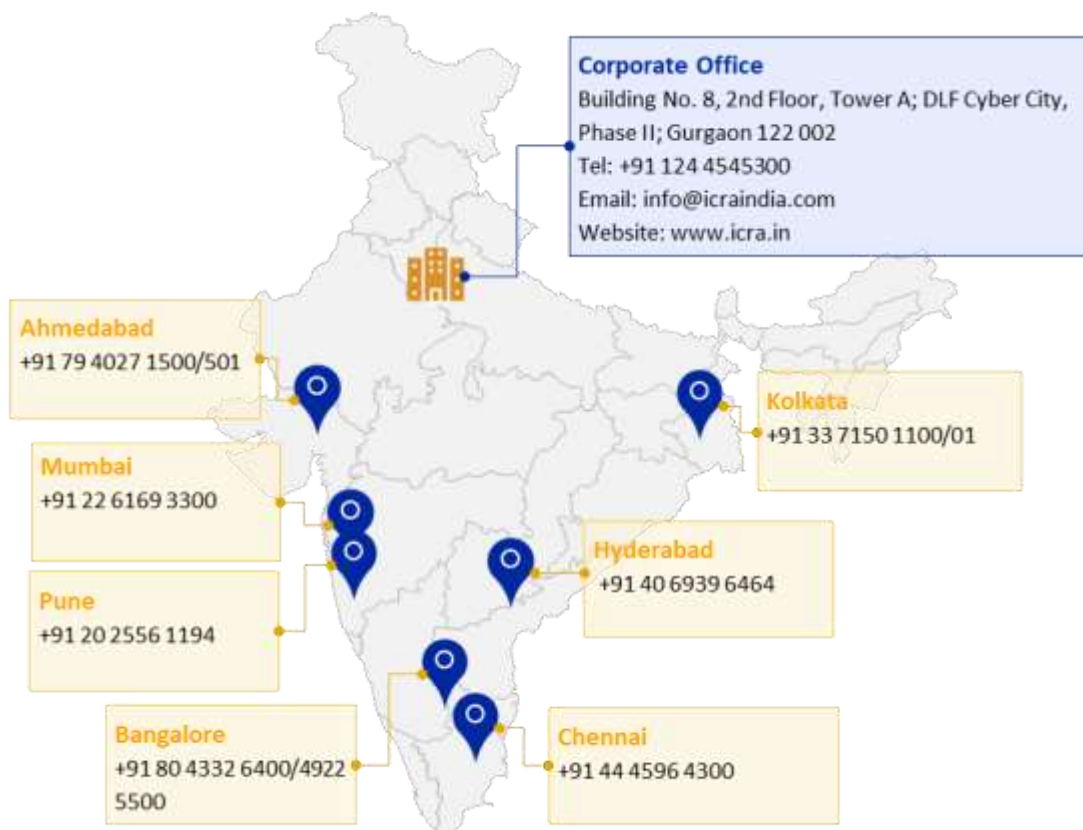
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