

November 22, 2024

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	15.00	[ICRA]BB- (Stable); reaffirmed
Long-term – Fund-based limits – Cash credit	4.00	0.00	-
Long-term – Non-fund based limits	17.00	15.00	[ICRA]BB- (Stable); reaffirmed
Long-term – Fund-based limits – Working capital term loan	1.00	0.00	-
Long-term – Unallocated limits	1.00	3.00	[ICRA]BB- (Stable); reaffirmed
Total	33.00	33.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for R.V. Rayanam (RVR) considers the extensive experience of the partners in undertaking building construction and its recognition as a special class contractor by the Government of Andhra Pradesh (AP), enabling the firm to secure projects. Its capital structure is adequate with TOL/TNW of 0.8 times as on March 31, 2024, which improved from 2.1 times as on March 31, 2023 on account of capital infusion in FY2024. The partners infused around Rs. 12.9 crore in the last 12 months to support the working capital requirements, which was largely used to settle the creditors.

The rating is, however, constrained by the high geographical concentration risk with the entire order book limited to AP. The revenues declined to nil in FY2024 from Rs. 37.3 crore in FY2023 owing to pending certification for the completed works. The firm has a work in progress of Work Rs. 25.1 crore as on March 31, 2024 and is pending for fund release. Additionally, it reported a healthy order book of Rs. 134.7 crore as on September 30, 2024. Nevertheless, order execution has slowed down due to payment delays. Given this, timely realisation of payments remains a key monitorable. RVR is also 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 past operational track record.

Key rating drivers and their description

Credit strengths

Long experience of partners in execution of civil contracts – RVR's partners have more than four decades of experience in executing building works. 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.

Comfortable capital structure – The firm's total debt stood at Rs. 13.4 crore as on March 31, 2024, which comprises Covid-19 pandemic-related loan of Rs. 0.4 crore, unsecured loans of Rs. 0.20 crore and working capital of Rs. 12.80 crore. The TOL/TNW improved to 0.8 times as on March 31, 2024, from 2.1 times as on March 31, 2023 with increase in net worth on account of infusion of funds by partners. On repayment of the entire term loan and working capital in H1 FY2025, the TOL/TNW is expected to remain adequate at below 1.0 times in the medium term.

Credit challenges

Deterioration in operational performance in FY2024 – The firm revenues declined to nil in FY2024 from Rs. 37.3 crore in FY2023 owing to pending certifications for the completed works. Work was underway for projects worth Rs. 25.1 crore as on March 31, 2024 and is pending for fund release. Although RVR has a healthy order book of Rs. 134.7 crore as on September 30, 2024, the order execution has slowed down due to payment delays. Given this, timely realisation of payments remains a key monitorable.

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

Risks related to partnership nature of the firm – RVR is exposed to risks inherent in a partnership firm, including limited ability to raise capital and capital withdrawals by partners, which may affect the capital structure and liquidity position.

Liquidity position: Stretched

The firm’s liquidity position is stretched owing to slow execution of order book and delay in receipt of payments from its key customers. The liquidity position is, however, supported by cushion in working capital limits with an average utilisation of overdraft facility at 21% for the last six months ending September 30, 2024.

Rating sensitivities

Positive factors – The rating could be upgraded if the firm demonstrates a significant improvement in revenues, earnings and liquidity position on a sustained basis.

Negative factors – The rating could be downgraded if the firm is unable to improve the earnings and/or the working capital cycle adversely impacts the liquidity position on a sustained basis. Specific credit metrics that could lead to a rating downgrade include the interest coverage ratio reducing below 2.0 times on a prolonged 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). RVR executes civil, electrical, mechanical and engineering contracts, primarily for AP state government departments. It is a Kakinada-based construction firm promoted by Mr. R V Rayanam, who has more than four decades of experience in the civil construction industry.

Key financial indicators

	FY2023	FY2024*
Operating income	37.3	0.0
PAT	5.0	2.1
OPBDIT/OI	13.4%	NM
PAT/OI	5.6%	NM
Total outside liabilities/Tangible net worth (times)	2.1	0.8
Total debt/OPBDIT (times)	2.3	6.3
Interest coverage (times)	3.1	1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *Provisional data; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

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)	Nov22, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based Limits – Overdraft	Long term	15.0	[ICRA]BB-(Stable)	Aug 18, 2023	[ICRA]BB-(Stable)	-	-	-	-
Fund-based limits – Cash credit	Long term	0.00	-	Aug 18, 2023	[ICRA]BB-(Stable)	Sep 23, 2022	[ICRA]BB-(Stable)	Nov 30, 2021	[ICRA]BB-(Stable)
			-	-	-	-	Sep 10, 2021	[ICRA]BB-(Stable)	
Non-fund based limits	Long term	15.00	[ICRA]BB-(Stable)	Aug 18, 2023	[ICRA]BB-(Stable)	Sep 23, 2022	[ICRA]BB-(Stable)	Nov 30, 2021	[ICRA]BB-(Stable)
			-	-	-	-	Sep 10, 2021	[ICRA]BB-(Stable)	
Fund-based – WCTL	Long term	0.00	-	Aug 18, 2023	[ICRA]BB-(Stable)	-	-	-	-
Unallocated limits	Long term	3.00	[ICRA]BB-(Stable)	Aug 18, 2023	[ICRA]BB-(Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits – Overdraft	Simple
Non-fund based limits	Very 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	15.00	[ICRA]BB- (Stable)
NA	Non-fund based limits	NA	NA	NA	15.00	[ICRA]BB- (Stable)
NA	Unallocated limits	NA	NA	NA	3.00	[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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