

December 24, 2024

## Raghava Constructions (India) Private Limited: Rating upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	100.0	150.00	[ICRA] BBB (Stable); Upgraded from [ICRA] BBB- (Stable)
Long-term/Short-term: Non-fund based – Bank guarantee	490.0	623.60	[ICRA] BBB (Stable)/[ICRA]A3+; Upgraded from [ICRA] BBB- (Stable)/[ICRA]A3
Long-term/Short-term – Non-fund based – Letter of credit	26.40	26.40	[ICRA] BBB (Stable)/[ICRA]A3+; Upgraded from [ICRA] BBB- (Stable)/[ICRA]A3
Long-term/Short-term – Proposed – Non-fund based facilities	24.60	-	-
Long-term/Short-term - Unallocated limits	159.00	-	-
<b>Total</b>	<b>800.00</b>	<b>800.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings upgrade for Raghava Constructions (India) Private Limited (RCIPL) factors in the improvement in its order book profile with the share of Central Government funded projects increasing to 65% as on October 31, 2024 against more than 85% of the projects are funded by the Government of Telangana as on March 31, 2022 and commencement of billing for Revamped Distribution Sector Scheme (RDSS) orders, which accounted for 37% of the order book. The ratings note the healthy revenue growth to more than Rs. 1,500 crore in FY2025, which is expected to sustain in the medium term, supported by strong order book position (OB) of Rs. 11,438.6 crore as on October 31, 2024. The rating considers RCIPL's strong operational track record of more than two decades in executing irrigation, roads and water supply projects in Telangana and Andhra Pradesh.

The ratings are, however, constrained by the high geographical concentration risk with top two states accounting for 95.3% of the order book (Telangana and Andhra Pradesh) and high segment concentration risk with 87.6% of orders from electrical, water supply and irrigation segments. Further, RCIPL is exposed to execution risk as 78.5% of the order book is in the nascent stages of execution (<10% executed as on October 31, 2024) with majority of these orders received over the past 18 months. The working capital intensity remained moderate as reflected by NWC/OI of 20% in H1 FY2025 on account of sizeable supplier advances and higher work in progress, which is pending for certification. However, majority of the working capital requirements are funded through credit from vendors/sub-contractors and mobilisation advances resulting in a leveraged capital structure with TOL/TNW of 1.8 times as on September 30, 2024. The ratings are constrained by high group investments of Rs. 144.8 crore as on September 30, 2024, which stood at around 28% of RCIPL's net worth of Rs. 503.2 crore constraining its financial flexibility. RCIPL is exposed to the inherent cyclicality 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 firm has sizeable contingent liabilities in the form of bank guarantees and letter of credit (Rs. 434.8 crore as on October 31, 2024), mainly towards performance guarantee, mobilisation advance, retention money and material purchase. Nonetheless, ICRA draws comfort from its proven execution track record and absence of any bank guarantee invocation in the past. The rating considers the corporate guarantee given to Raghava Lifesciences Private Limited (rated [ICRA]BB(Stable)), which is promoted by RCIPL's shareholders and is into manufacturing of active pharmaceutical ingredient (API).

The Stable outlook on the long-term rating reflects ICRA's opinion that RCIPL will benefit from its strong order book position, movement towards better counterparty mix and proven operational track record.

## Key rating drivers and their description

### Credit strengths

**Strong order book position with improved order book profile and expected healthy revenue growth** – RCIPL has a strong order book (OB) of Rs. 11,438.6 crore as on October 31, 2024, which provides medium-term revenue visibility. The firm has received two orders of Rs. 1,758.5 crore in H1 FY2025 and expected addition of new orders is likely to support the order book position. The share of Central Government funded projects increased to 65% as on October 31, 2024 from 38% in 7M FY2025. The share of revenues from these projects is likely to remain high in the medium term. Consequently, the cash conversion cycle is expected to remain favourable amid timely receipt of payments from the Central Government agencies.

**Healthy revenue growth expected to sustain in medium term** – The firm's scale of operations improved to Rs. 1,404.1 crore in FY2024 from Rs.1,203.8 crore in FY2023. Further, it booked revenues of Rs. 473.0 crore in 7M FY2025 compared to Rs. 429.8 crore in 7M FY2024 and it is expected to improve to more than Rs. 1,500 crore in FY2025 from Rs. 1,400 crore in FY2024, supported by healthy order execution of RDSS works.

**Established operational track record in construction industry** – RCIPL has a strong operational track record of more than two decades in execution of projects in areas of irrigation, roads and water supply 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

**Concentrated order book** – The geographical concentration risk is high with top two states (Andhra Pradesh and Telangana) accounting for 95.3% of the order book as on October 31, 2024. It faces high project concentration risk with the top five orders constituting 60.7% and high segment concentration risk with 87.6% of the order book from electrical, water supply and irrigation segments. Around 78.5% of the order book is in the nascent stages of execution (less than 10% of execution) resulting in high execution risk. However, commencement of billing in the projects, which was received in the last 18 months, mitigates the risk to an extent.

**Leveraged capital structure and investments in Group companies** – The leverage is high with TOL/TNW at 1.8 times as on September 30, 2024 owing to high trade creditors, mobilisation advances and retention money payable to subcontractors. The firm has group investments of Rs. 144.8 crore as on September 30, 2024 and adjusted for these investments, the TOL/TNW stood higher at 2.5 times as on September 30, 2024. RCIPL has provided a corporate guarantee for the term loan availed by Raghava Lifesciences Private Limited. Any material incremental investments or advances to Group entities adversely impacting its liquidity position and financial flexibility will remain a key monitorable.

**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 firm has sizeable contingent liabilities in the form of bank guarantees and letter of credit (Rs. 434.8 crore as on October 31, 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. 49.3 crore as on September 30, 2024 and sufficient cushion in fund-based limits. The average utilisation of fund-based limits for the 12-month period ending November 2024 stood moderate at 36.91%. The firm has debt obligations of ~Rs. 20.0 crore, capex plans of Rs. 25.0 crore for FY2025, which can be comfortably met through its cash flow from operations.

## Rating sensitivities

**Positive factors** – ICRA may upgrade RCIPL’s ratings in case of an improvement in its business risk profile through diversification of order book while maintaining its profitability margins, along with improvement in liquidity position. A specific credit metric for a rating upgrade is TOL/TNW declining to less than 1.5 times on a sustained basis.

**Negative factors** – Pressure on RCIPL’s ratings could arise if there are delays in execution of projects, and/or stretch in the working capital cycle and/or any increase in Group investments or advances adversely impacting the liquidity position. A specific credit metric for a rating downgrade is TOL/TNW increasing to above 2.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Construction</a>
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 from a private limited company in 2019. Mr. Ponguleti Prasad Reddy is the Managing Director of the firm. It is a registered special class-1 contractor with the departments of road and building (R&B) and irrigation and CAD in Telangana and Andhra Pradesh (AP). The firm predominately executes irrigation, roads and drinking water projects.

## Key financial indicators (audited)

Standalone	FY2023	FY2024	H1 FY2025*
Operating income	1,203.8	1,404.1	602.6
PAT	63.3	74.5	28.2
OPBDIT/OI	10.8%	10.9%	10.3%
PAT/OI	5.3%	5.3%	4.7%
Total outside liabilities/Tangible net worth (times)	1.8	1.7	1.8
Total debt/OPBDIT (times)	1.1	0.7	0.9
Interest coverage (times)	6.5	4.9	9.2

Source: Company, 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	Current (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	Dec 24, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long-term	150.00	[ICRA] BBB (Stable)	Aug 27, 2024	[ICRA] BBB- (Stable)	Jun 16, 2023	[ICRA] BBB- (Negative)	May 31, 2022	[ICRA] BBB (Stable)	-	-
Proposed fund-based facilities	Long-term	-	-	-	-	Jun 16, 2023	[ICRA] BBB- (Negative)	May 31, 2022	[ICRA] BBB (Stable)	-	-
Non-fund based – Bank guarantee	Long-term/Short-term	623.60	[ICRA] BBB (Stable)/A 3+	Aug 27, 2024	[ICRA] BBB- (Stable)/A 3	Jun 16, 2023	[ICRA] BBB- (Negative)/A3	May 31, 2022	[ICRA] BBB (Stable)/A 3+	-	-
Non-fund based – Letter of credit	Long-term/Short-term	26.40	[ICRA] BBB (Stable)/A 3+	Aug 27, 2024	[ICRA] BBB- (Stable)/A 3	Jun 16, 2023	[ICRA] BBB- (Negative)/A3	May 31, 2022	[ICRA] BBB (Stable)/A 3+	-	-
Proposed – Non-fund based facilities	Long-term/Short-term	-	-	Aug 27, 2024	[ICRA] BBB- (Stable)/A 3	Jun 16, 2023	[ICRA] BBB- (Negative)/A3	May 31, 2022	[ICRA] BBB (Stable)/A 3+	-	-
Unallocated limits	Long-term/Short-term	-	-	Aug 27, 2024	[ICRA] BBB- (Stable)/A 3	Jun 16, 2023	[ICRA] BBB- (Negative)/A3	May 31, 2022	[ICRA] BBB (Stable)/A 3+	-	-

## Complexity level of the rated instruments

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

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	150.00	[ICRA] BBB (Stable)
NA	Non-fund based – Bank guarantee	NA	NA	NA	623.60	[ICRA] BBB (Stable)/ [ICRA]A3+
NA	Non-fund based – Letter of credit	NA	NA	NA	26.40	[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 the debt of Raghava Lifesciences Private Limited, which has been considered for RCIPL's rating assessment.

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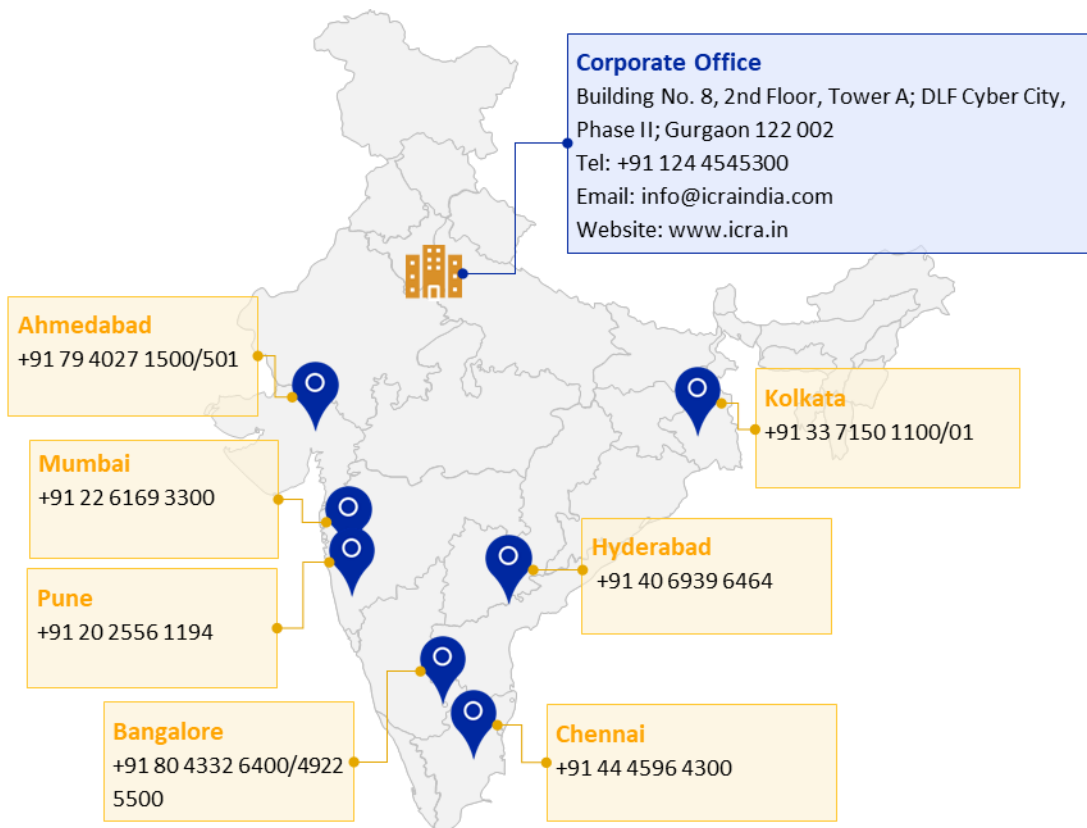
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