

R.V. Rayanam

April 05, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term- Secured Overdraft	10.00	10.00	[ICRA]B+(Stable); reaffirmed
Long Term- Bank Guarantee	15.00	30.00	[ICRA]B+(Stable); reaffirmed
Total	25.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The rating factors in the high client and project concentration risk with top customer accounting for 72% of its unexecuted order book as on February 28, 2019. The rating also considers high segment and geographic concentration risk with order execution limited to execution of civil contracts only in Andhra Pradesh, and highly competitive construction industry marked by presence of numerous players where tenders are largely awarded on lowest price quoted. The rating considers constrained liquidity position with high average utilisation of working capital limits on account of high receivables. ICRA also notes that revenues are vulnerable to budgetary allocations by the state government and municipalities; and risks arising from partnership nature of the firm viz. capital withdrawal seen during FY2017 and FY2018.

However, the rating favorably factors in the extensive experience of the partners spanning over four decades in the execution of civil contracts and recognition as a special class contractor by the Government of Andhra Pradesh enabling the firm to participate in various projects for the State Government. The rating also factors in the healthy order book size of Rs. 237.8 crore as on March 28, 2019, which is 2.4 times FY2018 revenues, resulting in medium term revenue visibility.

Outlook: Stable

ICRA believes that RVR will continue to benefit from the extensive experience of its partners in the civil construction business. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, along with better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if lower-than-expected cash accruals due to slow execution of projects in hand, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Significant experience of partners in civil contract works- The firm was incorporated by Mr. R.V. Rayanam, who has been in the field of civil construction since 1970 while his son, Mr. Remella Satish has more than 26 years of experience in executing civil contracts.

Recognition as a special class contractor- The firm is recognised as a special class contractor by the Government of Andhra Pradesh which enables it to participate in a variety of projects for the State Government, and RVR is primarily engaged in execution of civil, electrical, mechanical and engineering contracts.

Healthy order book size- The firm has healthy unexecuted order book of Rs. 237.8 crore as on March 28, 2019, which is 2.4 times FY2018 revenues, lending revenue visibility in the medium term.

Credit challenges

High project and client concentration risk – The firm is exposed to high project and customer concentration risk as its top customer accounts for 72% of its order book and it has four on-going orders.

High geographic and sectoral concentration risk – The firm’s geographic concentration risk remains high with work order execution limited to Andhra Pradesh. Further, the firm’s work orders are mostly confined to execution of civil contracts for various departments of Government of Andhra Pradesh.

Inherent risks being a partnership firm – Being a partnership firm, it is vulnerable to capital withdrawals by the partners. The capital withdrawals have been high at Rs. 2.8 crore in FY2017 and Rs. 2.7 crore in FY2018.

High competitive intensity in civil construction industry – The firm faces high competition from numerous other players in the civil construction industry. Given that the firm participates in work orders for various government departments where business is tender based, sustainability of profit margins is vulnerable.

Liquidity Position:

The firm’s liquidity has been stretched with high utilisation of fund-based on account of stretched receivables position. However, the non-fund-based was comfortable at 55.5% as on February 28, 2019. The firm does not have any major capital expenditure plans in the near to medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the firm

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. 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 central and state government departments.

In FY2018, the firm reported net profit of Rs. 5.1 crore on an operating income of Rs. 97.5 crore, as compared to a net profit of Rs. 2.3 crore on an operating income of Rs. 51.6 crore in FY2017.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	51.6	97.5
PAT (Rs. crore)	2.3	5.1
OPBDIT/OI (%)	11.4%	10.1%
RoCE (%)	41.5%	68.5%
Total Debt/TNW (times)	5.2	1.5
Total Debt/OPBDIT (times)	2.3	0.8
Interest coverage (times)	2.6	5.2

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
								April 2019
1 Secured Overdraft	Long Term	10.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-	
2 Bank Guarantee	Long Term	30.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Secured Overdraft	-	-	-	10.00	[ICRA]B+ (Stable)
NA	Bank Guarantee	-	-	-	30.00	[ICRA]B+ (Stable)

Source: R.V. Rayanam

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