

## Rating Rationale

October 13, 2023 | Mumbai

# Sri Raja Rajeswari Constructions India Private Limited

*Ratings Reaffirmed*

### Rating Action

|   |                                       |
|---|---------------------------------------|
| <b>Total Bank Loan Facilities Rated</b> | <b>Rs.300 Crore</b>                   |
| <b>Long Term Rating</b>                 | <b>CRISIL BBB/Stable (Reaffirmed)</b> |
| <b>Short Term Rating</b>                | <b>CRISIL A3+ (Reaffirmed)</b>        |

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

### Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Sri Raja Rajeswari Constructions India Private Limited (SRRCIPL) at 'CRISIL BBB/Stable/CRISIL A3+'

The ratings continue to reflect the extensive experience of the promoters in the civil construction sector, strong execution capabilities and healthy unexecuted order book of the company. These strengths are partially offset by exposure to risk arising from geographical & sectoral concentration in the orderbook, the tender-based nature of business and large working capital requirement.

### Key Rating Drivers & Detailed Description

#### Strengths:

- **Extensive experience of the promoters:** SRRCIPL benefits from the three-decade-long experience in the civil construction industry, their strong understanding of local market dynamics, and healthy relationships with customers and suppliers should continue. Strong track record and project execution capabilities has helped the company bag sizeable orders, as reflected in the healthy pipeline of orders worth Rs 1942 crores as of July 2023.
- **Healthy order book position:** SRRCIPL has a sizeable unexecuted order book worth nearly Rs 1942 crore, which is 3.09 times of revenue in fiscal 2023. This provides steady revenue visibility over the medium term. The average execution cycle is 1-3 years, depending on the size of the project.
- **Above-average financial risk profile:** Financial risk profile is marked by a healthy networth and moderately high gearing of around Rs 291.86 crore and 0.74 time, respectively, as on March 31, 2023. Healthy accretion to reserves and profitability should help the networth improve further over the medium term. Debt protection metrics are also comfortable, marked by interest coverage and net cash accrual to adjusted debt ratios of 4.79 times and 0.34 time, respectively, for fiscal 2023. Gearing expected to improve over the medium term supported by healthy accretions.

#### Weakness:

- **Exposure to risk arising from geographical & sectoral concentration and the tender-based nature of business:** Operations are largely concentrated within Telangana, with around 52% of the current orders. Geographical concentration is a key risk factor as any change in government regulations, pressure on budgets of local government departments or any slowdown in infrastructure spending can significantly impact revenue and realizations. Also, around 54% of the total orderbook outstanding are in the irrigation segment, hence resulting in high sectoral concentration as well. Growth in revenue also depends largely on the ability of the company to bid successfully, and it also remains susceptible to intense competition from several local players.
- **Large working capital requirement:** Operations are working capital intensive in the construction industry and the company had gross current assets (GCA) days of 235 days driven by inventory of 139 days and receivables of 51 days as on March 31, 2023. The company issues bank guarantee for retention money, bid security and performance guarantee, which adds to the working capital requirement. Operations will continue to remain working capital-intensive owing to the nature of industry.

### Liquidity: Adequate

Bank limit utilisation is high at around 90.50 percent for the past twelve months ended July 2023. Cash accruals are expected to be over Rs 80-100 crore which are sufficient against high term debt obligation of Rs 40-60 crore over the medium term. Current ratio is healthy at 1.96 times on March 31, 2023. The promoters are likely to extend support in the form of equity and unsecured loans to meet its working capital requirements and repayment obligations.

### Outlook: Stable

CRISIL Ratings believes SRRCIPL will continue to benefit from its established market position in the civil construction space.

### Rating Sensitivity Factors

#### Upward factors:

- Growth in revenue and steady operating margin, leading to higher cash accrual
- Sustenance of gross current assets around 220 days

#### Downward factors:

- Decline in scale or operating margin, leading to lower cash accrual
- Increase in gearing over 1 time, constraining the capital structure

### About the Company

Setup as a proprietorship firm by the name R. Muthaiah in 1993 and later reconstituted as a partnership firm in 2007, and converted to private limited company in 2014, Sri Raja Rajeswari Constructions India Pvt Ltd (SRRCIPL) is engaged in earthworks, canal lining and civil construction works. The company is based out in Hyderabad, Telangana and the operations of the company are managed by Mr. R. Muthaiah and his son Mr. R. Ramu.

### Key Financial Indicators

| As on/for the period ended March 31 | Unit     | 2023*  | 2022   |
|-------------------------------------|----------|--------|--------|
| Operating income                    | Rs.Crore | 633.56 | 610.06 |
| Reported profit after tax           | Rs.Crore | 49.33  | 42.33  |
| PAT margins                         | %        | 7.80   | 6.95   |
| Adjusted Debt/Adjusted Networkth    | Times    | 0.74   | 0.79   |
| Interest coverage                   | Times    | 4.79   | 6.29   |

\*Provisional

**Any other information:** Not applicable

### Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

### Annexure - Details of Instrument(s)

| ISIN | Name of instrument                | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs.Crore) | Complexity levels | Rating assigned with Outlook |
|------|-----------------------------------|-------------------|-----------------|---------------|-----------------------|-------------------|------------------------------|
| NA   | Bank Guarantee                    | NA                | NA              | NA            | 105                   | NA                | CRISIL A3+                   |
| NA   | Bank Guarantee                    | NA                | NA              | NA            | 60                    | NA                | CRISIL A3+                   |
| NA   | Bank Guarantee                    | NA                | NA              | NA            | 12                    | NA                | CRISIL A3+                   |
| NA   | Cash Credit                       | NA                | NA              | NA            | 18                    | NA                | CRISIL BBB/Stable            |
| NA   | Cash Credit                       | NA                | NA              | NA            | 45                    | NA                | CRISIL BBB/Stable            |
| NA   | Cash Credit                       | NA                | NA              | NA            | 30                    | NA                | CRISIL BBB/Stable            |
| NA   | Proposed Working Capital Facility | NA                | NA              | NA            | 30                    | NA                | CRISIL BBB/Stable            |

### Annexure - Rating History for last 3 Years

| Instrument                | Type | Current            |                   | 2023 (History) |        | 2022     |                      | 2021 |        | 2020 |        | Start of 2020 |
|---------------------------|------|--------------------|-------------------|----------------|--------|----------|----------------------|------|--------|------|--------|---------------|
|                           |      | Outstanding Amount | Rating            | Date           | Rating | Date     | Rating               | Date | Rating | Date | Rating | Rating        |
| Fund Based Facilities     | LT   | 123.0              | CRISIL BBB/Stable | --             | --     | 05-09-22 | CRISIL BBB/Stable    | --   | --     | --   | --     | Suspended     |
|                           |      |                    |                   | --             | --     | 31-01-22 | CRISIL BBB-/Positive | --   | --     | --   | --     |               |
| Non-Fund Based Facilities | ST   | 177.0              | CRISIL A3+        | --             | --     | 05-09-22 | CRISIL A3+           | --   | --     | --   | --     | --            |
|                           |      |                    |                   | --             | --     | 31-01-22 | CRISIL A3            | --   | --     | --   | --     |               |

All amounts are in Rs.Cr.

### Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|----------|-------------------|----------------|--------|
|----------|-------------------|----------------|--------|

|                                   |     |                            |                   |
|-----------------------------------|-----|----------------------------|-------------------|
| Bank Guarantee                    | 105 | The Karnataka Bank Limited | CRISIL A3+        |
| Bank Guarantee                    | 60  | State Bank of India        | CRISIL A3+        |
| Bank Guarantee                    | 12  | ICICI Bank Limited         | CRISIL A3+        |
| Cash Credit                       | 18  | ICICI Bank Limited         | CRISIL BBB/Stable |
| Cash Credit                       | 45  | The Karnataka Bank Limited | CRISIL BBB/Stable |
| Cash Credit                       | 30  | State Bank of India        | CRISIL BBB/Stable |
| Proposed Working Capital Facility | 30  | Not Applicable             | CRISIL BBB/Stable |

## Criteria Details

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| Links to related criteria  |
| <a href="#">CRISILs Approach to Financial Ratios</a>                               |
| <a href="#">Rating criteria for manufacturing and service sector companies</a>     |
| <a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a> |
| <a href="#">Rating Criteria for Construction Industry</a>                          |
| <a href="#">CRISILs Approach to Recognising Default</a>                            |
| <a href="#">Understanding CRISILs Ratings and Rating Scales</a>                    |

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