

Press Release

ROYAL INFRA ENGINEERING PRIVATE LIMITED

March 12, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 61.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable
Short Term Rating	SMERA A3+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (**read as SMERA BBB**) and short term rating of '**SMERA A3+**' (**read as SMERA A three plus**) on the Rs. 61.00 crore bank facilities of ROYAL INFRA ENGINEERING PRIVATE LIMITED. The outlook is '**Stable**'.

Royal Infra Engineering Private Limited (RIPL), incorporated in 2009 is a Gujarat-based company promoted by Mr. Vasantbhai Patel to take-over the existing business of Royal Builders. The company is registered as Class AA+ Special Category I contractor with the Roads and Building Department, Government of Gujarat and undertakes civil construction contracts for the Gujarat government.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

RIPL has been executing civil construction contracts in Gujarat for more than two decades. The company is led by Mr. Vasantbhai Patel, Chairman, who possesses around three decades of experience in the civil construction industry.

• Comfortable financial risk profile

The financial risk profile is comfortable marked by tangible networth of Rs. 29.92 crore as on 31 March, 2017 as against Rs. 22.54 crore in the previous year. The gearing stood at 0.78 times on 31 March, 2017 as against 0.81 times in the previous year. The total debt of Rs. 23.33 crore includes term loans from bank of Rs. 4.61 crore, unsecured loans of Rs. 2.14 crore and working capital funds of Rs. 16.59 crore. The Interest Coverage Ratio (ICR) stood at 5.66 times for FY2017 as against 5.64 times in FY2016. The Total Liabilities to Tangible Networth (TOL/TNW) stood at 3.75 times as on 31 March, 2017 as against 5.02 times in the previous year. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.44 times in FY2017 compared to 0.51 times in FY2016. Going forward, SMERA expects the company to maintain its financial risk profile in the absence of major debt funded capex plan.

• Efficient working capital management and adequate liquidity

The company continues to efficiently manage its working capital requirements with Gross Current Asset days of 55 for FY2017 compared to 67 days in the previous year. Further, the liquidity remains adequate because of comfortable cash accruals against debt repayment obligation and absence of any debt funded capex over the medium term. The average cash credit utilisation for the last six months stood at around 80 per cent ended 31 January, 2017.

Weaknesses

• Intense competition from established players

RIPL is exposed to intense competition from organised and unorganised players in the civil construction industry.

- **Uneven revenue trend due to tender based operations**

RIPL registered operating income of Rs. 384.97 crore for FY2017 as against Rs.388.63 crore for FY2016 and Rs. 325.26 crore for FY2015. The company exhibits uneven trend in its operating income. Besides, the tender-based business makes it vulnerable to order cyclicity. However, the company has reported operating income of Rs. 240.00 crore during the period April, 2017 to January, 2018 and has unexecuted order book position of Rs.714.61 crore to be executed by June, 2019. This provides moderate revenue visibility over the medium term.

- **Profitability susceptible to fluctuations in input cost**

The input cost i.e. cost of power, labour and raw materials - iron, steel and cement are highly volatile in nature. Besides, labour cost constitutes around 75 percent of the total revenue as the company sub-contracts its work. Hence, adverse movements in input costs can impact profitability. However, the company reported EBITDA margin of 2.98 percent for FY2017 as against 2.93 percent in the previous year.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Royal Infra Engineering Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on RIPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience and established operational track record. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals or deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	384.97	388.63	325.26
EBITDA	Rs. Cr.	11.46	11.39	9.25
PAT	Rs. Cr.	7.38	6.73	5.33
EBITDA Margin	(%)	2.98	2.93	2.84
PAT Margin	(%)	1.92	1.73	1.64
ROCE	(%)	31.36	34.14	51.48
Total Debt/Tangible Net Worth	Times	0.78	0.81	1.40
PBDIT/Interest	Times	5.66	5.64	7.91
Total Debt/PBDIT	Times	1.33	1.14	1.81
Gross Current Assets (Days)	Days	123	115	114

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BBB / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BBB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	SMERA A3+

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Aishwarya Phalke Analyst - Rating Operations Tel: 022-67141156 aishwarya.phalke@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.