Press Release
RAJARATHNAM CONSTRUCTION PRIVATE LIMITED
December 10, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE BB+ | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	35.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating to **'ACUITE BB+' (read as ACUITE double B plus**f**)**or Rajarathnam Construction Private Limited (RCPL) on the Rs.35.00 Cr. bank facilities. The outlook is **'Stable'**.

Rationale for Rating

The assigned rating is primarily based on the company's steady revenue velocity, mitigation of project-related risk, and significant increase in financial flexibility, all of which strengthen its overall credit profile. Due to its presence in both commercial and residential real estate, the company's diverse portfolio reduces the risk associated with any one industry.
The company has already sold approximately 50% of the inventory for all launched projects. Upcoming projects will majorly be funded from internal accruals limiting the funding risk. Collection efficiency from already sold inventory will remain rating sensitivity factor.

About the Company

Rajarathnam Construction Private Limited (RCPL), incorporated in 2000. The company is engaged in developing residential projects and commercial projects. The present directors of the company are Mr. Arokyasamy Rathinam, Mr. Rathinam Daniel Nixon, Mr. Rathinam Baptista and Mr. Rathinam Neil Wilson. The registered office of the company is in Chennai. The company has developed an established track record in real estate, delivered more than 100 projects with a saleable area of 3.15 million sq. ft. (msf.) over the span of three decades.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Rajarathnam Construction Private Limited (RCPL) to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management

The company is managed by Mr. Rathinam who professionally qualified civil engineer with over 40 years of experience is a doyen of Chennai's Real Estate sector. In addition, the company has highly skilled and professionalized team who ensures the highest standards in quality and customer satisfaction and their extended market presence has aided the business in building strong client relationships.

Healthy booking progress and customer advances in project

The Company has achieved healthy sales in respective project, out of the total assets which the company currently has, 50% of the same is already sold. Further, the total cost of construction for all the four projects is Rs. 293.82

Cr. out of which company is relying on Rs. 169.53 Cr. from customer advances which is approximately 57.69% of total cost. There has also been an ample flow of advances from sold commercial and residential properties. An adequate sales velocity gives sustained cash flow visibility. However, the company has collected 49.25% of total sales value as against construction progress of 70% as on 31st March 2024 indicating moderate collection efficiency. The company is expected to receive healthy surplus from receivables from the respective projects also from customer advances to be received (both tied up and future sales) which is expected to be adequate to support the remaining construction of all ongoing projects in the company. Further, the company has planned to develop around 9 Lakh sq.ft (square feet) of saleable area apart from developing plotted layouts.

Comfortable Debt Service Coverage Ratio

The project under development is funded by a combination of debt, customer advances and promoter funds. The company's high cash flow coverage ratio throughout the projections indicates that it is expected to have enough cash flow to fulfil its debt commitments. The overall cash flow for the company seems sufficient.

Weaknesses

Exposure to Execution risk

- The company is undertaking construction of residential and commercial Project wherein at group level 70% of the project is completed as on March 2024 and balance is yet to be built, hence it is exposed to implementation risk.
- The liquidity generated from already completed project and the loans are tied up for the current running projects which mitigates the funding risk to a certain extent however, any delay or slow progress in collection from customers will result into additional borrowing and hence the collection efficiency needs to be closely monitored.

Susceptibility to Real Estate Cyclicality and Regulatory Risks

The real estate industry in India is highly fragmented with most of the real estate developers, having a city specific or region-specific presence. The risks associated with real estate industry are cyclical in nature and directly linked to drop in property prices and interest rate risks, which could affect the operations. Given the high level of financial leverage, the high cost of borrowing prevents the real estate's developers' from significantly reducing prices to boost sales growth. Moreover, the industry is also exposed to certain regulatory risks linked to stamp duty and registration tax directly impacting the demand and thus the operating growth of real estate players.

Rating Sensitivities

- Substantially higher than-anticipated cash inflows, supported by healthy bookings.
- Strong Collection Efficiency resulting into strong DSCR.
- Any delays in completion of the ongoing project impacting the liquidity profile.
- Drawdown of more-than-expected debt or cost overrun in the residential and retail commercial building impacting the financial risk profile.

Liquidity Position

Adequate

Supported by the healthy sales velocity and healthy receipt of customer advances for its projects, company currently has healthy liquidity (Rs.123.17 crore as on 31st March 2024). Furthermore, the company is expected to generate healthy surplus over medium term. The company has a comfortable DSCR of more than 1.5x from FY24 to FY27. Company is maintaining DSRA for the amount equivalent to three-month principal and interest supporting the liquidity.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	80.00	62.18
PAT	Rs. Cr.	2.15	1.34
PAT Margin	(%)	2.69	2.15
Total Debt/Tangible Net Worth	Times	1.20	1.11
PBDIT/Interest	Times	1.46	1.32

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

None

Any other information

None

Applicable Criteria

• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Real Estate Entities: https://www.acuite.in/view-rating-criteria-63.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
State Bank of India	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE BB+ | Stable | Assigned
Tamilnad Mercantile Bank Limited	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	6.00	Simple	ACUITE BB+ | Stable | Assigned
State Bank of India	Not avl. / Not appl.	Term Loan	16 Sep 2023	Not avl. / Not appl.	30 Jun 2026	24.00	Simple	ACUITE BB+ | Stable | Assigned

Contacts

Mohit Jain Senior Vice President-Rating Operations Kartik Arora Analyst-Rating Operations	**Contact details exclusively for investors and lenders** Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

About Acuité Ratings & Research

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