Nanda Infra Construction Private Limited

April 12, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	14.00 (Enhanced from 12.50)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	16.00 (Enhanced from 7.50)	CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable/ A Four Plus)	Reaffirmed
Total Bank Facilities	**30.00 (Rs. Thirty Crore Only)**		

**Details of facilities in Annexure-1*

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of **Nanda Infra Construction Private Limited (NIPL)** continue to remain constrained by small, though growing scale of operation, geographically concentrated revenue stream, high collection period resulted in moderation in working capital cycle and exposure to risks inherent in tender-based businesses and intense competition in the industry. The ratings, however, continue to derive comfort from extensive experience of the promoter along with demonstrated execution capability in execution of small to midsized construction projects, satisfactory profitability margin with comfortable capital structure and strong debt coverage indicators and healthy order book position.

Rating Sensitivities

Positive factors- Factors that could lead to positive rating action/upgrade:

- Sizeable improvement in scale of operations (turnover above Rs.250.00 crore) by timely execution of projects in hand and fetch new orders while sustaining its current operating profit margin on a sustained basis.

Negative factors- Factors that could lead to negative rating action/downgrade:

- Any sizeable de-growth in scale of operation (turnover below Rs.70.00 crore), significant delay in project execution and non-receipt of new adequate number of orders on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small, though growing scale of operations: The total operating income has grown at a CAGR of 13.20% during FY18-FY20 on account of higher execution of orders in hand. Further, the profit levels and cash accruals also improved year on year in line with TOI during the aforesaid periods. Moreover, the overall scale of operations of the company remained small marked by total operating income of Rs.75.68 crore (Rs.59.70 crore in FY19), PAT of Rs.4.35 crore (Rs.2.40 crore in FY19) and GCA of Rs.6.04 crore (Rs.4.13 crore in FY19) in FY20. Further, the tangible networth base of the company also stood at Rs.21.60 crore (Rs.17.25 crore as on March 31, 2019) as on March 31, 2020 which restricts the financial flexibility of the company. Moreover, limited net-worth of the company also restricts its ability to bid for large size construction projects.

There was restriction on the operation of the company since the lockdown was imposed on 25th March, 2020 accordingly the company was not able to operate. However, the company has resumed its operation from August 01, 2020 after taking approval from local authority and it has booked a turnover of Rs.70.13 crore with PBT of Rs.4.91 crore during 10MFY21.

Geographically concentrated revenue stream: The company derives majority of revenue from government projects limited to Odisha thereby reflecting higher geographic concentration with fortunes closely linked to the incremental development of roads and water storage projects in the state. Moreover, large part of outstanding order book of the company is also geographically limited to states of Odisha only.

High collection period resulted in moderation in operating cycle: The construction segment has high working capital intensity primarily due to funding requirement towards the security deposits, retention/earnest money deposits and margin money for the non-fund-based facilities. Despite modest operating cycle, the company requires working capital limits mainly for funding the Earnest Money Deposit (EMD) requirements. The requirement of non-fund- based limits also remains high on account of requirement of performance and financial bank guarantee for project bidding and retention money. Moreover, the operating cycle has moderated at 54 days during FY20 as against 18 days in FY19 on account of reduction of average creditors period. Moreover, the gross current assets days remain high at 100 days in FY20.

Exposure to risks inherent in tender-based businesses and intense coemption in the industry: Intense competition from several players, and exposure to risks arising from dependence on tenders and geographical presence restricted to Odisha, restrict NICPL's ability to scale up further. Growth in revenue and profitability depends on the company's ability to bid successfully and executes order within stipulated time frame.

Key Rating Strengths

Extensive experience of the promoter along with demonstrated execution capability in execution of small to midsized construction projects: The promoter, Mr Dilip Kumar Nanda, has spent nearly two and half decades in the civil construction industry. Prior to setting up NICPL, he managed the operations of Nanda Construction, a partnership firm. Longstanding presence of the promoter in the civil construction business, has enabled the company to obtain a Super-Class contractor status with the Public Works Department of Odisha, and bid for large contracts floated by departments within the state. Healthy relationship with suppliers, also ensure flexible credit periods.

NICPL has over a decade of track record in execution of construction project in the state of Odisha which mainly includes construction of roads, bridges, and railway contract works etc. NICPL is registered as a superclass contractor with Public Works Department (PWD) of Odisha. NICPL has long-standing association with government bodies or public sector undertakings such as Public Works Department (PWD) Odisha, Indian Railways, etc.

Satisfactory profitability margin with comfortable capital structure and strong debt coverage indicators: NICPL's profitability margins improved and remained satisfactory marked by operating margin of 12.53% (FY19:11.73%) and PAT margin of 5.75% (FY19:4.02%) in FY20. The operating margin has improved during FY20 on account of better management of cost of operation. Further, the PAT margin also improved during FY20 in line with operating margin. The return on capital employed was also remained satisfactory at 23.54% in FY20 as against 18.46% in FY19.

Further, the capital structure of the company has remained comfortable marked by debt equity ratio of 0.11x and overall gearing ratio of 0.68x as on March 31, 2020. Furthermore, the capital structure has improved as on March 31, 2020 mainly on account of accumulation of surplus into reserve. Moreover; the debt coverage indicators also remained strong marked by interest coverage of 4.91x (FY19: 4.15x) and TD/GCA of 2.42x (FY19:3.45x) in FY20.

Further, the interest coverage has improved in FY20 due to higher increase in PBILDT levels vis-à-vis increase in interest expense during the year. Furthermore, the TD/GCA has also improved in FY20 due to higher generation of cash accruals during the year.

Healthy order book position of the entity: The company has an order book position of Rs.199.13 crore (2.63x of FY20 total operating income) as on January 31, 2021 which is to be executed by August 2022, reflected satisfactory revenue visibility for the company in near to medium term.

Liquidity: Adequate - Adequate liquidity marked by sufficient cushion in accruals vis-à-vis repayment obligations and modest bank limit utilisation. Its bank limits are utilized to the extent of 32% during last 12 months ended on January 31, 2021. Moreover, unencumbered cash and cash equivalent stood at Rs.6.91 crore as on March 31, 2020. Further, the current ratio stood adequate at 1.62x as on March 31, 2020. Furthermore, the company has generated cash accruals of Rs.6.04 crore during FY20 as against the fixed debt repayment obligation of Rs.1.50 crore for FY21. The company has not availed any moratorium that could be availed as per RBI regulatory packages. Moreover, the company has availed moratorium over interest on cash credit from March 2020 to August 2020 from its lender (Union Bank of India). Further, it has availed COVID relief loan of Rs.1.57 crore from its lender under the RBI regulatory packages. However, the company has not availed any moratorium from its lender for other facility

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch'
Liquidity Analysis of Non-financial sector entities
Rating Methodology – Construction Sector
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
CARE's Policy on Default Recognition

About the Company

Incorporated in July 2011, Nanda Infra Construction Private Limited (NICPL) was promoted by the Nanda family based out of Talcher, Odisha. The company has been primarily engaged in civil construction activities in the segments like construction of roads, bridges and railway contract work mainly in the state of Odisha. The company majorly works for the government entities such as Public Works Department (PWD) Odisha, Indian Railways, Mahanadi Coalfield ltd., etc. NICPL is a registered class 'Superclass' contractor with PWD, Odisha which enables NICPL to participate in higher value contracts floated by the government entities.

NICPL has an order book position of Rs.199.13 crore (2.63x of FY20 TOI) as on January 31, 2021, which is expected to be completed by August, 2022.

Brief Financials (Rs. crore)	31-03-2019	31.03-2020	31-01-2021
	A	A	Prov.
Total operating income	59.70	75.68	70.13
PBILDT	7.00	9.48	6.15
PAT	2.40	4.35	-
Overall gearing (times)	0.83	0.68	0.30
Interest coverage (times)	4.15	4.91	17.57

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Non-cooperation with ICRA Ratings vide its press release dated January 27, 2020.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	14.00	CARE BB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	16.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	14.00	CARE BB+; Stable	1)CARE BB+; Stable (06-Apr-21)	-	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	16.00	CARE BB+; Stable / CARE A4+	1)CARE BB+; Stable / CARE A4+ (06-Apr-21)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this Company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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