NSPR Constructions India Private Limited

March 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	8.50	**CARE BBB; Stable (Triple B; Outlook – Stable)**	Reaffirmed
Long/Short term Bank Facilities	41.50	**CARE BBB; Stable/ CARE A3+ (Triple B; Outlook – stable/ A Three Plus)**	Reaffirmed
Total facilities	**50.00 (Rs. Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of NSPR Constructions (India) Private Limited (NSPR) continues to take into account considerable experience and track record of the promoters in executing road projects, growth in order book position and regular financial support from group's road SPVs in the form of interest free Inter Corporate Deposits (ICDs. The ratings also factors in healthy growth in the total operating income during FY17 (refers to the period April 01 to March 31), satisfactory liquidity position and overall improvement in financial risk profile.

The ratings are, however, constrained by decline in the profitability margins, geographic concentration of order book and intense competition in the civil construction space due to the fragmented industry structure coupled with tender-based contract awarding system followed by the Government departments which exerts pressure on profitability.

The ability of the company to execute the orders on hand within the time frame, gradually diversify its order book position, improve its profitability, receive payments in a timely manner from government departments and maintain a comfortable capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Considerable experience of promoters in execution of road projects

The chairman of the company, Mr. N Siva Prakash Reddy, has over 15 years of experience in the roads sector. NSPR undertook BOT road projects under five SPVs with concession agreements issued by APRDC and executed projects as Engineering, Procurement and Construction (EPC) contractor in these road projects. The top management is guided and assisted by experienced team of professionals with considerable experience in construction industry.

Growth in order book position

NSPR's order book increased to Rs.543.35 crore as on December 31, 2017 from Rs. 338.61 crore as on September 30, 2016. Order book to total operating income for FY17 was 2.57x; indicating healthy revenue visibility over the medium term.

Healthy growth in operating income

The total income of the company has registered healthy growth of around 91% during FY17 from Rs.110.58 crore in FY16 to Rs. 211.07 crore at the back of steady execution of orders. During FY17, 90% of the revenue was derived from execution of orders pertaining to roads and building in the states of Andhra Pradesh, Telangana and Chhattisgarh. The

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

balance 10% of the revenue is derived from O&M contract of Build-Operate-Transfers (Annuities) road projects under the SPV's and JV's.

Comfortable capital structure with healthy debt coverage indicators

The overall gearing of the company was comfortable at 0.25x as on March 31, 2017, as against 0.36x as on March 31, 2016. The total debt to GCA marginally improved in FY17 on account of decline in the debt levels of the company during the year. Low finance cost incurred by the company on account of timely repayment of loans and minimal working capital utilization has resulted in improved PBILDT interest coverage ratio from 5.15x during FY16 to 7.01x in FY17.

Satisfactory liquidity position

Operating cycle of the company improved significantly during FY17 on account of significant improvement in the average collection period. The average working capital utilization of the company for the 12 months ended January 2018 remained comfortable at 49%. The company has comfortable liquidity position with free liquid funds as on March 31, 2016.

Key Rating Weaknesses

Decline in profitability margins

Despite the increasing trend in income, the operating margin of the company has been on a declining trend during FY15-17 primarily due to the volatility in raw material prices and increase in the operational expenses (job work charges) on account of rise in the contribution of sub contract work. The PBILDT margin of the company deteriorated by 692 bps to 5.92% in FY17 over 12.84% in FY16. Furthermore, the PAT margin of the company also declined by 410 bps to 3% in FY17 (7.10% in FY16).

Geographically concentrated order book

The current order book of the company is concentrated over Andhra Pradesh (45%) and Chhattisgarh (55%). The satisfactory order book position provides visibility of revenues in short term to medium term, however the same bears the risk with all the orders being geographic concentrated.

Exposure to volatility in input prices

Concrete, Bitumen, steel, diesel and cement are the major inputs for any construction entity, the prices of which are volatile. Thus, the profitability is exposed to fluctuation in input prices given the fixed price nature of contracts executed by NSPR.

Tender-based revenue operations in intensely competitive civil construction industry

NSPR receives all of its work orders from government departments constituting 100% of its order book position. All these are tender-based and the revenues are dependent on the company's ability to bid successfully for these tenders. Profitability margins depend on the competitive nature of the industry and it is under pressure.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short term Instruments
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

About the Company

NSPR Constructions (India) Private Limited [NSPR] started its operations in 1995 as a proprietorship concern promoted by the present chairman of the company, Mr. N Shiva Prakash Reddy. NSPR was converted into partnership firm in 2005 and

undertook road contract works. From a modest turnover in 2005, the firm grew in size and the firm was eventually incorporated as a private limited company in the year 2009. NSPR undertakes construction of roads and bridges for the Governments of Andhra Pradesh (AP), Madhya Pradesh and Chhattisgarh.

NSPR has undertaken five build-operate-transfer (annuity) projects under five special-purpose vehicles (SPVs) namely NSP Variegate PP Road Projects Private Limited, NSP BVSR KP Road Projects Private Limited, NSP Variegate RG Road Projects Private Limited, NSPR KP Road Projects Private Limited and NSPR KP Two Road Projects Private Limited which have concession agreements with Andhra Pradesh Road Development Corporation (APRDC). All the road projects stated above are annuity based and are operational.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	110.62	211.07
PBILDT	14.21	12.50
PAT	7.86	6.33
Overall gearing (times)	0.36	0.25
PBILDT Interest coverage (times)	5.15	7.01
PBIT Interest Coverage (times)	4.61	6.34

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Working Capital Limits	-	-	-	8.50	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	41.50	CARE BBB; Stable / CARE A3+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Limits	LT	8.50	CARE BBB; Stable	-	1)CARE BBB; Stable (22-Feb-17)	1)CARE BBB- (13-Nov-15)	1)CARE BBB- (14-Jul-14)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	41.50	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (22-Feb-17)	1)CARE BBB- / CARE A3 (13-Nov-15)	1)CARE BBB- / CARE A3 (14-Jul-14)

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