

Nikhil Construction

August 20, 2019

Rating

| Facilities | Amount (Rs. Crore) | Rating ¹ | Rating action |
|----------------------------|--|--|--|
| Long-term Bank facilities | 26.00 (enhanced from 18.00) | CARE BB+; Stable (Double B Plus; Outlook: Stable) | Removed from INC and rating reaffirmed |
| Short Term Bank facilities | 31.00 (enhanced from 9.50) | CARE A4+ (A four Plus) | Removed from INC and rating reaffirmed |
| Total facilities | 57.00 (Rupees Fifty Seven crore only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Due to absence of adequate information and non-cooperation from Nikhil Construction (NC), CARE had earlier reviewed the ratings based on best available information and denoted the ratings as 'CARE BB+'; Stable Issuer Not Cooperating' for Long-term Bank facilities and CARE A4+ Issuer Not Cooperating. However, the company has now submitted the requisite information to CARE Ratings. CARE Ratings has carried out a full review of the ratings and the ratings stand at 'CARE BB+'; Stable/ CARE A4+

The reaffirmation of ratings assigned to the bank facilities of NC take into account the increased leverage, moderate scale of operations, slow pace of project execution, partnership constitution of firm thereby limiting financial flexibility, presence in competitive construction segment and exposure to tender driven process. The ratings also constrained on account of moderate scale of operations and liquidity position.

The ratings however derive strength from the experienced partners, satisfactory order-book position, backward integration into ready mix concrete plant resulting in improvement profitability margins during FY19 (Provisional) (refers to period April 1 to March 31) along with moderate debt coverage indicators.

The ability of NC to increase its scale operations by securing new orders and ensuring timely execution without cost-overruns along-with effective management of working capital cycle are the key rating sensitivities. Further, timely release of security deposits & retention money as envisaged thereby improving liquidity would remain key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoter

Nikhil Constructions is a Pune based partnership entity established by four partners Mr. Balasaheb D Pasalkar and his three sons Mr. Yogesh Pasalkar, Mr. Narendra Pasalkar, Mr. Nikhil Pasalkar (J). Mr. Balasaheb D. Pasalkar is Bachelor in Arts (BA) aged 63 having 24 years of experience in the field of the civil engineers works. The Partners have worked in various fields of civil works such as Roads, Infrastructural Works, Bridges, footpaths, Reservoirs, Pipelines, Canals, Private construction, etc. Being in the industry for about a decade, the partners have established good relationship with concessionaires and the material suppliers resulting in reasonable execution of projects. Although, the constitution of firm is partnership, there has been no capital withdrawal from Net worth observed for last four years. The profit from the firm is deployed back for operations of the firm.

Satisfactory order book position providing medium term revenue visibility

NC has around 10 year of presence (as a Partnership firm and 23 years including proprietorship) in the construction industry. NC has outstanding order book of Rs.417.62 crore (2.6x of FY19 TOI), as on March 31, 2019 with reasonable revenue visibility over the medium term as the same is expected to be executed over the next 2 years. The projects include construction of roads and bridges and strengthening, widening, and maintenance of the same, residential buildings (under private contacts), construction, testing and implementation of metal waterline, development of Smart road projects, development of smart city project, etc. Furthermore; ongoing projects are from urban local bodies, state government undertakings, and private contracts constituting 85.51%, 4.53% and 9.96% of order book respectively

Backward Integration of construction processes

NC has invested into plant and machineries and has integrated backward process that were earlier either outsourced or rented for construction processes. NC has set up ready mix concrete plant at four different places namely Manjari, Ausa, Laxmi Pati and Jambhulwadi, which are in Pune region, where quality of concrete mixtures of various grades is maintained and cost is minimised paving way for better margin for the firm. NC has also set up two crusher plants at Kolewadi and Ausa where stones are crushed into gravels as well as sand. NC has also set up one precast unit at Jambhulwadi thereby pioneering in the

manufacturing of a wide range of Paver Blocks with a variety of Glossy & Matt finishing of paver blocks, Industrial Pavers, Combination Pavers and Paver Tiles & Step Tiles. However, the investments in to these assets has increased the overall leverage of the firm with increased debt thereby increase in total capital employed.

Financial risk profile marked by revenue growth and improved profitability margins

NC registered a y-o-y revenue growth of ~7.81% in FY19 to Rs.141.73 crore from Rs.130.94 crore in FY18 on execution of orders majorly from government entities. The PBILDT margin of the entity improved to 16.70% in FY19 as against 9.65% in FY18 on account of the decrease in the operating expenses due to economies of scale attained on account of execution of higher value orders. The interest cost of the entity however increased to Rs.5.87 crore on account of the additional term loan availed for capital expenditure due to backward integration. The PAT margins of the entity marked to 6.66% in FY19 as compared to 5.09% in FY18.

Key Rating Weaknesses

Geographic concentration risk with presence in only Maharashtra region and competitive construction segment along-with risks associated with tender based nature of business

As on March 31, 2019 the outstanding order book is from Pune 26.69% and Pune district and other regions like Solapur district 3.23% Mumbai 3.81%, Omerga 29.69% and others 36.59%. However, NC has taken orders from private contractee, contract value small though. The group continues to be a small-sized player in the construction industry, which is fraught with intense competition with a large number of players and has low entry barriers. Furthermore, all the projects executed are in the state of Maharashtra specifically in Pune exposing to concentration risk.

Ongoing Capex

Nikhil Construction is undertaking construction of a six floor building and basement at Pune. The construction of the same is undertaken by Nikhil Infraspecialities Pvt. Ltd, a group company of Nikhil Construction. The estimated cost of construction is being financed (creditor financing) by Nikhil Infraspecialities Pvt. The repayment for the same will be done by NC in FY22. The building is proposed to be partly used by Nikhil Construction as its corporate office (one floor) and partly shall be leased out for commercial use.

Working capital intensive nature of business

The working capital cycle decreased to 17 days in FY19 on the back of decrease in debtor days 97 days from 125 days in FY18. The creditor period of the NC also decreased to 90 days as on March 31, 2019 as against 95 days as on March 31, 2019. However, as on March 31, 2017, the inventory days increased to 11 days in FY19 against 5 days in FY18

Liquidity Stretched

Liquidity is marked by high working capital utilization. The average CC utilization remained high at~86.24% over the past 12 months ended June 2019. However, average Bank Guarantee (BG) utilization remained low at 31.31% for past 12 month. BG's are backed by fixed deposits of Rs.3.70 crore. Cash and Bank Balance stood at Rs.5.81 crore as on March 31, 2019.

Going forward after the successful completion of the few major projects, liquidity position is expected to improve led by realization of security deposits and lien marked fixed deposits from concessionaires (contractee) and bank respectively. Improvement in liquidity position, as envisaged, by timely release of security deposits & retention money will remain a key rating monitorable.

Deterioration of capital structure

The overall gearing deteriorated marginally and stood at 1.82x as on March 31, 2019 as against 1.66x as on March 31, 2018 on account of increment in total debt comprising of term loans and working capital. The term loans increased to Rs.31.74 in FY19 from Rs.20.48 in FY18 on account of investment made in fixed, comprising of plant and machineries for an on-going road project and other works. The increase in total short term debt is mainly on account of increase in working capital requirements. Any deterioration in capital structure adversely impacting the debt servicing capability of the entity is a key rating sensitivity..

Analytical approach: Standalone.

D. Applicable Criteria:

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodolgy- Infrastructure sector ratings.](#)

About the Company

Nikhil Construction (NC), promoted by Mr. Balasaheb Pasalkar was incorporated in 1995 as a proprietary firm. In April 2009 the same was converted to a Partnership firm with his three sons, Mr. Yogesh Pasalkar, Mr. Narendra Pasalkar and Mr. Nikhil Pasalkar being the partners. The firm is based out of Pune, Maharashtra. NC is engaged in the business of civil construction with specialization & expertise in irrigation and road projects. NC has successfully completed the road and building projects in past amounting to Rs.450.25 crore in last five years ending March 31, 2018 for various entities including Pune municipal corporation (PMC) and other public sector bodies.

| Brief Financials (Rs. Crore) | FY18 (A) | FY19 (P) |
|------------------------------|----------|----------|
| Total operating income | 130.94 | 141.73 |
| PBILDT | 12.63 | 23.66 |
| PAT | 6.67 | 9.43 |
| Overall gearing (times) | 1.66 | 1.82 |
| Interest coverage (times) | 3.05 | 4.03 |

A: Audited; P:Provisional

Status of non-cooperation with previous CRA: N.A.

Rating History for 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 | - | - | - | 25.00 | CARE BB+; Stable |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 31.00 | CARE A4+ |
| Fund-based - LT-Bank Overdraft | - | - | - | 1.00 | CARE BB+; Stable |

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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 25.00 | CARE BB+; Stable | - | 1)CARE BB+; Stable; ISSUER NOT COOPERATING* (14-Jan-19) | 1)CARE BBB-; Stable (16-Aug-17) | - |
| 2. | Non-fund-based - ST-Bank Guarantees | ST | 31.00 | CARE A4+ | - | 1)CARE A4+; ISSUER NOT COOPERATING* (14-Jan-19) | 1)CARE A3 (16-Aug-17) | - |
| 3. | Fund-based - LT-Bank Overdraft | LT | 1.00 | CARE BB+; Stable | - | - | - | - |

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 clarification.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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.

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