Nila Infrastructure Limited

April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	-	-	**Revised to CARE BBB; Stable from CARE BBB+; Stable and withdrawn**
Long-term/ Short-term Bank Facilities	-	-	**Revised to CARE BBB; Stable/ CARE A3 Plus from CARE BBB+; Stable/ CARE A2 and withdrawn**
Total	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has revised the outstanding ratings assigned to the bank facilities of Nila Infrastructures Limited (NILA) from '**CARE BBB+; Stable/ CARE A2' (Triple B Plus; Outlook: Stable/ CARE A Two) to CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)** and withdrawn subsequently with immediate effect. The above action has been taken at the request of NILA and the 'No Objection Certificate' received from the banks that had extended the facilities rated by CARE.

The revision in the ratings assigned to the bank facilities of NILA takes into account significant increase in working capital intensity of operations and its exposure towards JVs (Joint Venture) and SPVs (Special Purpose Vehicle) in the form of investments and loans and advances, which resulted in elongation of its operating cycle and higher than envisaged total debt as on March 31, 2019, which further increased as on December 31, 2019.

The ratings continue to derive strength from the experienced promoters, established track record of operations of the company in the construction industry, hybrid model of executing projects under EPC, EPC+PPP & PPP mode and moderate order book position of the company. The ratings also takes into account NILA's moderate profitability (albeit declined in FY19 and 9MFY20), capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained on account of NILA's moderate scale of operations with high geographical concentration, competitive nature of the industry and exposure to risk associated with slum rehabilitation projects as well as change in government policy regarding Public Private Partnership (PPP) projects.

Detailed description of the key rating drivers

Increase in working capital intensity of operations: Working capital intensity of NILA's operations increased during FY19 (refers to the period April 01 to March 31) and 9MFY20 (refers to the period April 01 to December 31) on account of consistent increase in the value of LDR/ TDR (land development rights/ Transferable development rights) to Rs.39.78 crore (PY end Rs.18.82 crore), increase in receivables (including unbilled revenue) to Rs.80.03 crore (PY: Rs. 60.37 crore) and high inventory holding of land as well as its exposure to JVs and SPVs in the form of investments and loans and advances as on March 31, 2019. Overall requirement grew further during 9MFY20 on account of further increase in the investment in JVs and SPVs (to Rs.68.47 crore) and receivables (to Rs.127.63 crore) as on December 31, 2019.

On account of above, NILA reported negative cash flow from operation of Rs.16.23 crore (PY Rs.+6.52 crore), elongation of its working capital cycle to 164 days in FY19 (156 days in FY18) and gross current assets days at 271 days in FY19 (PY 257 days) along with moderation in its current as well as quick ratio. Average fund based working capital utilization remained moderate at 77.71% for past 12 months ended November 30, 2019. NILA had cash and bank balance of Rs.0.89 crore as on March 31, 2019 (excluding margin money of Rs.8.72 crore) as compared to Rs.5.80 crore (excluding margin money of Rs.

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

6.77 crore) as on March 31. 2018. However, NILA has taken steps to improve its liquidity and reduce its debt by liquidating LDR/TDR of Rs.31.55 crore and land of Rs.34.72 crore in H2FY20.

Key Rating Strength

Experienced promoters and established track record of operation of the company: NILA is a part of Sambhaav group, promoted by Mr. Manoj B. Vadodaria and Mr. Kiran B. Vadodaria. Mr Manoj Vadodaria, chairman and managing director of the company, has a rich experience of over four decades in various entrepreneurial ventures. Mr Deep Vadodaria, Chief operating officer, has more than a decade experience in the infrastructure and real estate industry. Promoters are well supported by professional and experienced tier II management personnel.

Hybrid business model of project execution: NILA has a hybrid project execution model which includes project on engineering, procurement and construction (EPC), Public Private Partnership (PPP) and EPC+PPP mode. EPC projects are normally fixed price contract, while EPC+PPP mode is more prominent for development of affordable housing where remuneration is in the form of fixed contract value plus 25% balance vacant land which is generally transferred to the company at the end of the contract. Under PPP mode, entire cost of project execution is funded by the company and remuneration is in the form of transferrable development rights (TDR)/ land development rights (LDR).

Moderate order book position: NILA has order book of Rs.577.48 crore (2.54x of TOI of FY19) as on December 31, 2019, reflecting moderate revenue visibility. The order book is diversified with civil urban infrastructure (including office building, industrial parks etc.) constituting around 46% of its order book, affordable housing (including slum rehabilitation) at 25% and balance orders are from private parties.

Moderate profitability and capital structure: NILA's profitability remained stable during FY19 with PBILDT and PAT margin of 17.43% (18.49% in FY18) and 9.77% (10.46% in FY18) respectively. The moderation in profitability during FY19 was primarily on account of change in proportion of PPP and EPC projects in TOI. As per provisional results for 9MFY20, NILA reported TOI of Rs. 174.52 crore with PBILDT and PAT margin of 18.44% and 8.52% respectively.
Despite increase in debt to fund increase in working capital intensity, overall gearing (incl. mobilization advances) remained moderate at 1.06x as on March 31, 2019 (1.06x as on March 31, 2018).

Key Rating Weaknesses

Moderate scale of operations: Nila continues to operate on a moderate base; During FY19, the company reported Total operating income (TOI) remained stable with a marginal growth of 5% to Rs.227.01 crore (PY: Rs. 215.51 crore). Furthermore, its operations remained geographically concentrated with 88% of orders from Gujarat state and 12% from Rajasthan.

Decline in debt coverage indicators: The increase in working capital intensity in operations was bridged through debt and consequently NILA's debt coverage indicators declined in FY19 and 9MFY20. Interest coverage (PBILDT/ Interest) and Total debt/EBIDTA declined to 3.08x (3.39x in FY18) and 3.35x (2.88x in FY18) respectively in FY19. The coverage ratios declined further during 9MFY20 on account of increase in interest cost and higher total debt as on December 31, 2019.
However, NILA has utilized proceeds received from the sale of LDR/TDR and land for reducing its debt and meet incremental working capital requirements.

Exposure towards JVs and SPVs in the form of investments and loans and advances: NILA had extended significant loans and advances to related party and others aggregating Rs.85.01 crore as on December 31, 2019 (Rs.65.61 crore as on March 31, 2019). However, the advances are interest-bearing and the company received interest of Rs.6.67 crore in FY19 (Rs.6.09 crore in FY18).

Geographically concentrated order book: Operations of NILA is geographically concentrated in the state of Gujarat with 88% orders to be executed in Gujarat, and balance 12% in Rajasthan as per outstanding order book as on December 31, 2019. The concentration of major order book in two states exposes NILA's growth prospects to the macro and socio-political upheavals in the regions. However, NILA has an established track record in executing orders in these states and also benefits from shared resources due to proximity of projects.

Competitive nature of the industry and risk associated with slum rehabilitation projects: The construction/infrastructure industry is highly fragmented and competitive in nature with presence of many mid and large sized players. It is tender driven and projects are allotted by competitive bidding which exerts pressure on the profitability margin of the players. Further, slum rehabilitation project have their own set of risk and challenges starting from identification of beneficiaries, obtaining the various approvals in time bound manner, land scarcity, timely construction, quality of housing, dispute redressal mechanism, rising cost, and availability of prime space to sell. Being of a PPP nature and funds are being deployed by local state/central government-semi governmental agencies, there is risk of any significant change in government policy and/or budgetary allocation. Further, remuneration is in terms of LDR/TDR for PPP projects and in terms of the land for EPC+PPP project which makes company susceptible to any change in state/central governmental policy regarding the same.

Analytical approach: Standalone

Applicable Criteria:
Policy on Withdrawal of ratings
Criteria on Assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term instruments
Rating Methodology- Construction Sector
Rating Methodology - Infrastructure Sector Ratings (ISR)
Financial ratios – Non-financial sector

About Company
NILA was incorporated on February 26, 1990 as a private limited company under the name of Nila Builders Pvt Ltd. Company had started as real estate developer in Gujarat and has a long track record of developing and marketing own projects. It forayed into the infrastructure space in 2008 and over the last few years, it has shifted its focus in executing civic urban infrastructure & affordable housing projects as a contractor. NILA is registered as an approved contractor for Special Category-I Building Class, Special Category Building R&B & AA class R&B with the Government of Gujarat, Roads and Buildings Department. NILA is a part of the Sambhaav Group from Ahmedabad, Gujarat.

Demerger of real estate business to Nila Spaces Limited (NSL)
Pursuant to the approval of the NCLT dated May 9, 2018 for the scheme of demerger between NILA and NSL, the assets and liability pertaining to the real estate undertaking, were transferred to and vested in NSL w.e.f the appointed date viz. April 1, 2017 and June 15, 2018 was a record date for the allotment of the 1 fully paid-up equity share of Rs. 1 each of NSL to the shareholder of NILA, having 1 equity share of face value of Rs.1. Real estate business formed 12.70% of TOI of Rs.225.10 crore (pre de-merger) and 34.54% of PAT of Rs.22.84 crore (pre de-merger) for FY17. Further, net assets of Rs.115.47 crore and total debt of Rs.65.84 crore as on March 31, 2017 were transferred to real estate undertaking. Demerger had resulted in transfer of significant amount of loans advances along with land inventory of the real estate business from NILA.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Operating Income	215.51	227.01
PBILDT	39.20	39.57
PAT	22.53	22.18
Overall Gearing (times)	1.06	1.06
Interest coverage (times)	3.39	3.08

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: 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
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	0.00	Withdrawn
Fund-based - LT-Bank Overdraft	NA	NA	NA	0.00	Withdrawn
Fund-based - LT/ ST-Bank Overdraft	NA	NA	NA	0.00	Withdrawn

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.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE BBB+; Stable / CARE A2 (29-Mar-19)	1)CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications) (19-Mar-18)	-
2.	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE BBB+; Stable (29-Mar-19)	1)CARE BBB+ (Under Credit watch with Developing Implications) (19-Mar-18)	-
3.	Fund-based - LT/ ST-Bank Overdraft	LT/ST	-	-	-	1)CARE BBB+; Stable / CARE A2 (29-Mar-19)	1)CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications) (19-Mar-18)	-

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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