Nila Infrastructures Limited

March 19, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	49.00	**CARE BBB+ [Triple B Plus] (Credit watch with developing implication)**	**Assigned; placed on credit watch with developing implications**
Long-term/Short-term Bank Facilities	128.50	**CARE BBB+/CARE A2 [Triple B Plus/ A Two] (Credit watch with developing implication)**	**Assigned; placed on credit watch with developing implications**
Total Facilities	**177.50 (Rupees One Hundred Seventy Seven crore and Fifty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of Nila Infrastructures Limited (NILA) derive strength from the experienced promoters, established track record of operation, diversified revenue profile with hybrid model of projects executed and healthy order book position. The ratings further derive strength from financial risk profile marked by healthy profitability, moderate capital structure and debt coverage indicators.

The ratings, however, are constrained on account of moderate scale of operation with geographical concentration, high working capital intensive nature of operations and significant exposure towards associate companies in the form of investments and loans and advances. The ratings are further constrained by competitive nature of industry and risk associated with slum rehabilitation projects as well as change in government policy regarding Public Private Partnership (PPP) projects.

NILA's ability to increase its scale of operation and profitability through timely completion of the projects on hand and monetization of the transferrable development rights (TDR)/land development rights (LDR) while managing its working capital efficiently shall be the key rating sensitivities. Any further significant increase in investments or loans and advances towards associates and maintaining prudent capital structure would also be a key rating sensitivity.

The ratings assigned to the bank facilities of NILA have been placed on 'Credit Watch with developing implications' in view of impending impact of proposed scheme of demerger of its real estate business into Nila Spaces Limited with appointed date as April 01, 2017. The proposed scheme of demerger is subject to necessary approvals from exchanges and regulatory authorities. CARE would take a view on ratings once the exact impact of the above demerger on the financial risk profile of NILA is clear.

Detailed description of the key rating drivers

Key Rating Strengths

***Experienced promoters and established track record of operation of the company in real estate and construction sector*:**

NILA is promoted by Mr. Manoj B. Vadodaria and Mr. Kiran B. Vadodaria. Mr Majoj Vadodaria, chairman and managing director of the company, has a rich experience of 40 years in various entrepreneurial ventures. Promoters are resourceful and have supported the operation of the company as and when required by infusion of unsecured loan or equity. NILA was established as a real estate player in 1990 and has successfully executed several housing projects with saleable area of ~10 million sq. ft. However, company had forayed into the infrastructure space in 2008 and since then has significantly transformed from city based realtor to diversified infrastructure player with prime focus on affordable housing and civic urban infrastructure projects.

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

Diversified revenue profile with hybrid model of projects executed**:** NILA has reduced its direct exposure to real estate and has not initiated any new construction and development of real estate project since FY14. Majority of its income is derived from execution of infrastructure project contributing 86% of total operating income (TOI) of FY17 compared to real estate segment (sale of unsold residential units), land sale and leasing contributing 5%, 7% and 2% respectively. NILA has hybrid model of executing infrastructure project on engineering, procurement and construction (EPC), EPC+ PPP & PPP mode. EPC projects are normally fixed price contract. EPC+PPP mode is more prominent in Rajasthan state for development of affordable housing where remuneration is in the form of fixed contract value plus 25% balance vacant land which generally transferred to the company at the end of the contract however; company can monetize it by selling LDR/TDR to other developers as per the contract terms. Under PPP mode, entire cost of project execution is funded by the company and remuneration is in the form of vacant land and/or TDR/LDR. Income from EPC, EPC+PPP and PPP projects constituted 61%, 10% and 15% of total operating income (TOI) in FY17 respectively.

Healthy order book**:** NILA has strong order book of Rs.587.54 crore (2.61x of TOI of FY17) as on December 31, 2017, with diversified projects profile such as affordable housing (including slum rehabilitation), bus terminal, industrial parks etc., reflecting moderate revenue visibility. Its order book continues to be dominated by low complexity infrastructure projects and affordable housing projects. Out of total order book as on December 31, 2017 proportion of EPC, EPC+PPP & PPP projects was 61%, 29% and 10% respectively. Of the total order book private players contributes 52%, government authority 42% whereas rest of the projects are under its own SPVs.

Healthy profitability with moderate capital structure and debt coverage indicators**:** NILA had healthy profitability owing to its hybrid business model wherein EPC+PPP and PPP projects have better profitability compared to EPC projects as well as high margin real estate segment. Its profit before interest, lease, depreciation and tax (PBILDT) margin had declined from 23.52% in FY15 to 16.72% in FY17 with declining proportion of real estate business and increased contribution infrastructure projects but remained at a healthy level. As per unaudited (UA) results for 9MFY18, PBILDT margin had further improved to 17.58% during 9MFY18. Further, profit after tax (PAT) margin also remained healthy at 10.15% in FY17 and 11.02% in 9MFY18.
Overall gearing remained moderate at 0.72 times as on March 31, 2017 which deteriorated marginally to 0.81 times as on December 31, 2017. Debt coverage indicators had remained at moderate level marked by Total debt to gross cash accruals (TDGCA) of 5.99 years and interest coverage of 2.10 times in FY17.

Key Rating Weakness

Moderate albeit growing scale of operations with geographical concentration risk: Over the past three years ended March 2017, NILA's operations (TOI) had grown at a healthy CAGR of 34.31% backed by increased orders from civil infrastructure segment and timely execution of the same. However, the overall scale of operations remained at a moderate level marked by TOI of Rs.225.01 crore in FY17. NILA's operation was mainly concentrated in Gujarat and Rajasthan. As on December 31, 2017, 61% of its order book is from Gujarat state where as remaining is from Rajasthan state.

Significant exposure towards associates**:** NILA had extended significant loans and advances to related party and others aggregating Rs.153.18 crore as on March 31, 2017 out of which exposure to its subsidiaries/JV/associates in the form of investments and loan & advances was Rs.71.52 crore and Rs.81.66 crore were to other parties. It includes L&A extended for its real estate business as well as other loans and advances. Timely receipt of the same is crucial from its liquidity perspective.

Working capital intensive operation**:** Operations of NILA are working capital intensive with operating cycle of 281 days in FY17 as compared to 342 days in FY16. This was mainly on account of land and real estate inventory holdings excluding the same operating cycle would be 85 days. Further, its working capital utilization remained high owing to its hybrid business model especially for EPC+PPP and PPP projects. Average fund based working capital utilization was 80-85% for past twelve months ended February 2018. Further, cash flow from operations was Rs.19.03 crore in FY17 as compared to negative cash flows during FY13-FY16 reflecting moderate liquidity condition. The timely monetization of land/TDR is crucial from liquidity perspective.

Competitive nature of industry working capital intensive operation and risk associated with slum rehabilitation projects as well as change in government policy regarding Public Private Partnership (PPP) 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. Further, 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.

Proposed scheme of demerger of the real estate business in to Nila Space Limited: On October 17, 2017, NILA announced demerger of its real estate business (which includes development of housing and commercial project) into NSL, formerly known as Parmananday Superstructure Limited (PSL) with appointed date has been fixed at April 01, 2017. As per scheme of demerger, all the assets and liability of the real estate business will be transferred to NSL. Pursuant to demerger of real estate undertaking, NSL will issue shares to the shareholders of NILA in the ratio of 1:1 and NILA's investment in NSL shall get cancelled. The demerger is subject to necessary approvals which are expected to be completed by Q1FY19 as per filings by the company.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Criteria for placing rating in credit watch
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

About the Company

NILA was incorporated on February 26, 1990 as a private limited company under the name of Nila Builders Pvt Ltd. It changed its name to present one in August 1995 and got listed on BSE in 1995. The company is promoted by Mr. Manoj B. Vadodaria and Mr. Kiran B. Vadodaria and is headquartered in Ahmedabad, Gujarat. Company had started as real estate developer in Gujarat and has a long track record of developing and marketing own projects with varied spectrum ranging from affordable housing to luxurious housing. However, over the last few years, it has shifted its focus to executing civic urban infrastructure & affordable housing projects as a contractor. The company 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.

The Company is a part of the Sambhaav Group from Ahmedabad, Gujarat. The Sambhaav Group (Sambhaav Media Limited) is engaged in Media and Entertainment industry and is publishing newspapers named "Sambhaav Metro" and weekly Gujarati magazine "Abhiyaan".

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)	9MFY18 (UA)
Total operating income	183.59	225.01	176.01
PBILDT	27.90	37.63	30.94
PAT	17.04	22.84	19.39
Overall gearing (times)	0.91	0.72	0.80
Interest coverage (times)	1.92	2.10	2.19

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Nil

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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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	-	-	-	114.90	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)
Fund-based - LT-Bank Overdraft	-	-	-	49.00	CARE BBB+ (Under Credit watch with Developing Implications)
Fund-based - LT/ ST-Bank Overdraft	-	-	-	13.60	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)

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.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	114.90	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)	-	-	-	-
2.	Fund-based - LT-Bank Overdraft	LT	49.00	CARE BBB+ (Under Credit watch with Developing Implications)	-	-	-	-
3.	Fund-based - LT/ ST-Bank Overdraft	LT/ST	13.60	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)	-	-	-	-

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CIN - L67190MH1993PLC071691