Nila Infrastructures Limited

March 29, 2019

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	47.30 (reduced from 49.00)	**CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**	Removed from credit watch; Rating Reaffirmed
Long-term/Short-term Bank Facilities	121.00 (reduced from 128.50)	**CARE BBB+; Stable/CARE A2 [Triple B Plus; Outlook: Stable/A Two]**	Removed from credit watch; Rating Reaffirmed
Total Facilities	**168.30 (Rs One hundred sixty eight crore and thirty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Nila Infrastructures Limited (NILA) have been removed from credit watch as company got the National Company Law Tribunal (NCLT) approval resulting in transfer of real estate business to Nila Spaces Limited (NSL, erstwhile Parmanaday Superstructure Limited) with appointment date of April 1, 2017. The ratings were placed on 'Credit watch with developing implications' in view of announcement made by the company to demerge its real estate business in the separate entity namely NSL.

The ratings assigned to the bank facilities of NILA continue to derive strength from the experienced promoters, established track record of operation 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 further continue to derive strength from financial risk profile marked by healthy profitability, moderate capital structure and debt coverage indicators.

The ratings, however, are continue to remain constrained on account of moderate scale of operation with geographical concentration, high working capital intensive nature of operations, moderate liquidity and exposure towards JVs (Joint Venture) and SPVs (Special Purpose Vehicle) 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 while maintaining its profitability, timely monetization of the land as well as transferrable development rights (TDR)/land development rights (LDR) and managing its working capital efficiently shall be the key rating sensitivities. Any further increase in investments or loans and advances towards JVs/SPVs would also be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of operation of the company: NILA is 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 40 years in various entrepreneurial ventures. Mr Deep Vadodaria, Chief operating officer, has more than 10 years of experience in the infrastructure and real estate industry. Promoters are well supported by professional and experienced tier II management personnel.

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.

Hybrid business model of project execution: NILA has hybrid project execution model which includes project on engineering, procurement and construction (EPC), EPC+PPP & Public Private Partnership (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 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). Income from EPC, EPC+PPP and PPP projects constituted 71% (FY17: 78%), 16% (FY17: 11%) and 10% (FY17:9%) of total operating income

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

(TOI) in FY18 respectively. Generally EPC+PPP and PPP projects are more profitable compared to EPC projects resulting in better profitability of NILA.

Moderate order book position: NILA has strong order book of Rs.508.42 crore (2.36x of TOI of FY18) as on December 31, 2018, with diversified projects profile such as affordable housing (including slum rehabilitation), office building, industrial parks etc., reflecting moderate revenue visibility. Out of total order book as on December 31, 2018 proportion of EPC, EPC+PPP & PPP projects was 83%, 12% and 7% respectively. Of the total order book it had 71% of the projects from private players, 24% from government entities and 5% are own projects. Further, on March 07, 2019, it received two orders aggregating Rs.65.56 crore the work contract from Ahmedabad Urban Development Authority (AUDA) for the construction of affordable housing (total 616 residential units) at Ahmedabad on EPC basis.

Healthy profitability with moderate capital structure and debt coverage indicators: NILA has healthy profitability marked by profit before interest, lease, depreciation and tax (PBILDT) margin of 18.49% in FY18 (FY17: 14.80%) on account of high margin in EPC+PPP and PPP projects. Improvement in profitability during FY18 was on account of higher execution of projects from high margin PPP as well as EPC+PPP segment as well as monetization of TDR. Consequently, profit after tax (PAT) margin has also increase from 8.00% in FY17 to 10.46% in FY18. Based on unaudited published results for 9MFY19, NILA has reported TOI of Rs.151.85 crore (9MFY18: Rs.166.24 crore) with PAT of Rs.14.77 crore (9MFY18: 16.66 crore).
NILA had moderate capital structure marked by overall gearing of 1.06 times as on March 31, 2018. Total debt of the company had moderately increased from Rs.106.47 crore as on March 31, 2017 to Rs.114.79 crore (including mobilization advances) as on March 31, 2018 mainly on account increase in working capital debt. Debt coverage indicators of the company remained moderate marked by total debt to gross cash accruals (TDGCA) of 5.72 times in FY18 as compared to 5.23 times in FY17 and PBILDT interest coverage ratio of 3.39 times in FY18 as compared to 3.21 times in FY17.

Key Rating Weaknesses
Moderate scale of operations with geographical concentration: Total operating income (TOI) of NILA grew by 8%, from Rs.199.10 crore in FY17 to Rs.215.51 crore during FY18. This was mainly on account of moderate growth in project execution during FY18. However, its operation remained geographically concentrated with 82% of orders from Gujarat state and 18% from Rajasthan. Further, out of its total order book 24% of the orders are from government departments where projects are allotted on competitive bidding. These projects are mainly in EPC+PPP or PPP basis where competition has also increased from other integrated infrastructure players.

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.69.85 crore as on March 31, 2018 (Rs.51.76 crore as on March 31, 2017) out of which Rs.57.80 crore as on March 31, 2018 (Rs.45.27 crore as on March 31, 2017) was to its JVs/SPVs viz. Romanovia Industrial Park Pvt. Ltd (RIPPL), Kent Residential and Industrial Park LLP (KRIP), Nila Terminals (Amreli) Pvt. Ltd (NTAPL) and Vyapnila Terminals (Modasa) Pvt. Ltd (VTMPL). Timely receipt of the same is crucial from its liquidity perspective. It also receives interest income on these loans and advances, which was Rs.6.09 crore in FY18 and Rs.6.17 crore in FY17.

Working capital intensive operation: Operations of NILA are working capital intensive owing to its unique business model where in, it received contract value for EPC projects. However, EPC+PPP and PPP projects required major portion of working capital as remuneration is in terms of land and LDR/ TDR which is transferred to the company only after completion of the project. Operating cycle of the company remained elongated at 156 days in FY18 as compared to 159 days in FY17. The working capital requirement further increased during 9MFY19 mainly on account of high inventory holding, increase in TDR and elongated receivables including unbilled revenue.

Moderate liquidity: NILA had moderate liquidity marked by current ratio of 1.55 times and quick ratio of 0.95 times as on March 31, 2018 as compared to current ratio of 1.22 times and quick ratio of 0.67 times as on March 31, 2017. Average fund based working capital utilization remained moderate at 78.71% for past 12 months ended February 28, 2019.
Cash flow from operation significantly declined from Rs.34.41 crore during FY17 to Rs.6.52 crore during FY18. It was mainly on account of increase in L&A extended to its JVs/SPVs along with increase in working capital requirement. However, part of L&A from its JV was recovered during 9MFY19.
NILA had cash and bank balance of Rs.5.80 crore as on March 31, 2018 (excluding margin money of Rs.6.77 crore) and Rs.7.03 crore as on September 30, 2018.

Competitive nature of industry and risk associated with slum rehabilitation projects as well as change in government policy: 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:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term instruments
Rating Methodology - Infrastructure Sector Ratings (ISR)
Financial ratios – Non-financial sector

About Company
NILA (CIN: L45201GJ1990PLC013417) 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 to 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. Sambhaav Media Limited (SML) part of the group is engaged in Media and Entertainment industry and is publishing newspapers like "Sambhaav Metro" and weekly Gujarati magazine "Abhiyaan".

Update on Demerger of real estate business to 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. De-merger had resulted into transfer of significant amount of loans advances along land inventory of real estate business from NILA.

Brief Financials (Rs. Crore)	FY17 (A)*	FY17 (A)	FY18 (A)
Total operating income	225.01	199.10	215.51
PBILDT	37.63	29.47	39.84
PAT	22.84	15.93	22.53
Overall gearing (times)	0.72	1.75	1.06
PBILDT Interest coverage (times)	2.10	3.21	3.39

*A: Audited; *Pre-demerger*

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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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	-	-	-	105.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Bank Overdraft	-	-	-	47.30	CARE BBB+; Stable
Fund-based - LT/ ST-Bank Overdraft	-	-	-	16.00	CARE BBB+; Stable / CARE A2

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	105.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications) (19-Mar-18)	-	-
2.	Fund-based - LT-Bank Overdraft	LT	47.30	CARE BBB+; Stable	-	1)CARE BBB+ (Under Credit watch with Developing Implications) (19-Mar-18)	-	-
3.	Fund-based - LT/ ST-Bank Overdraft	LT/ST	16.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications) (19-Mar-18)	-	-

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CIN - L67190MH1993PLC071691