

Press Release

NSL Constructions Private Limited

March 23, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term/ Short Term Bank Facilities (including Proposed)	44.00	IVR BBB- / Stable; IVR A3 (Triple B Minus; Outlook: Stable ; Single A3)	Assigned
Short Term Bank Facilities	6.00	IVR A3 (Single A3)	Assigned
Total	50.00 (Rupees Fifty crore)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of NSL Constructions Private Ltd (NSLCPL) derives strength from its experienced promoters, proven project execution capability with reputed clientele, satisfactory order book reflecting satisfactory medium-term revenue visibility, moderate financial performance and moderate capital structure with adequate debt protection metrics. However, the ratings are constrained by geographical and sectoral concentration risk with small scale of its operations, susceptibility of operating margin to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector and working capital intensive nature of its operations.

Key Rating Sensitivities:

Upward Factors

- A sustained improvement in the revenue, scale of operations while maintaining the debt protection metrics and profitability
- Sustenance of the capital structure with further improvement in liquidity
- Reduction in concentration risks

Downward Factors

- Moderation in operating income and/or cash accrual or deterioration in operating margin to below 7%
- Moderation in the capital structure with overall gearing above 1.5x and /or deterioration in debt protection metrics
- Moderation in liquidity position with stretch in operating cycle



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

NSL Constructions Pvt Ltd (NSLCPL) is promoted by partners of NB Construction Co, Mr. P.N. Nagabhusana and Mr. P. N. Nithin, both qualified civil engineers having wide experience in the construction industry through various organizations and experience in handling and executing office complexes, Residential Quarters, Non- Residential buildings, Godowns, Auction Platforms, roads and structural works etc. at Karnataka.

Proven project execution capability with reputed clientele

NB Constructions has successfully completed many projects in the state of Karnataka for various government departments and Non-government organisations. The repeat orders received from its clientele validate its construction capabilities. Further, most of the clients are government departments and/or government organisations which indicates low counterparty risk.

Satisfactory order book reflecting satisfactory medium-term revenue visibility

The company has an outstanding order book of Rs.484.61 crores (10.35 times of its FY20 revenue) of which execution worth Rs.327.09 is to be executed over the next 3-4 years indicating a healthy revenue visibility.

Moderate financial performance and moderate capital structure with adequate debt protection metrics

On combined basis, the partnership firm and the company have registered a total income of Rs.90.89 crore with an EBITDA of Rs.8.50 crore and PAT of Rs.6.08 crore and generated considerable cashflows and profit margins to meet their working capital requirement with low dependency on the working capital bank facilities. Further, the combined capital structure also remained moderate with combined overall gearing at 0.35x and combined total debt to tangible net worth at 5.28x respectively as on March 31,2020. However, the combined debt protection metrics remained healthy with interest coverage ratio at 10.41x and total debt to EBITDA at 0.47x in FY20.



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Key Rating Weaknesses

Geographical and sectoral concentration risk with small scale of operations

The present order book is skewed towards civil work in Karnataka from various government departments indicating a geographical and sectoral concentration risk. Further, the overall scale of operations is also small thus restricting its capability to bid for and execute large infrastructure projects. However, the promoters have adequate experience in order to execute projects in the state which imparts some comfort. Further to reduce its geographical concentration risk the company has started bidding for projects in other states.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the entity is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, escalation clause (for raw materials) is included in most of the contracts to protect the margin to an extent.

Tender driven nature of business in highly fragmented & competitive construction sector

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the firm's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Working capital intensive nature of operations

The operation of the combined entity remained working capital intensive marked by its elongated receivable period.

Analytical Approach: Consolidated

Infomerics has taken a combined approach for NSL Construction Pvt Ltd. and NB Construction Co. (partnership firm). The partners of NB Construction Co. incorporated NSL Construction Pvt Ltd to

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shift the entire business into the private limited company to manage the growth in a better manner. Some of the projects awarded to NB Construction Co. (partnership firm) is under execution under the company and the revenue for the same shall also be received by NSLCPL, whereas some of the projects are currently undertaken by the partnership firm and once finally settlements are received, the firm shall cease to exist thereafter. Eventually all the projects would be undertaken under NSLCPL as per the management. Since both the entities are under the same promoters and the company is only a continuation of the erstwhile partnership firm Infomerics analytical team has combined the financials.

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity –Adequate

NSLCPL has an adequate liquidity position marked by its nil repayment obligation driven by its conservative capital structure. The company has generated gross cash accruals of Rs.2.31 crore in FY20 and expected to generate cash accrual in the range of ~Rs.4-9 crore in FY21-23. Further, the company's average utilization of working capital limits remained low at ~21% for the 12 months ending January 31, 2021 indicating a healthy liquidity buffer.

About the Company

Incorporated in April, 2019 NSL Constructions Pvt Ltd (NSLCPL) is promoted by partners of NB Construction Co under the guidance of Mr. P.N. Nagabhusana who has more than 25+ years of experience in the civil construction industry. Before incorporation of NSLCPL, the construction operations were conducted under NB Constructions which is a partnership firm of the promoter, which was established in 2009. The promoters have executed various government projects like Residential schools, Hostels, Stadiums, Hospitals, Bus Terminals, Godowns and markets etc. worth ~950 crores over the years. NSLCPL has project order book worth Rs. 320.96 crores as on December 31, 2020.

Financials: Combined

(Rs. crore)

For the year ended*/ As on	31-03-2020
	Audited
Total Operating Income	89.64
EBIDTA	8.50
PAT	5.64

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For the year ended*/ As on	31-03-2020
	Audited
Total Debt	4.03
Adjusted Net worth	12.19
EBIDTA Margin (%)	9.35
PAT Margin (%)	6.20
Overall Gearing Ratio (x)	0.35

*as per Infomerics standards

Financials: Standalone

For the year ended*/ As on	31-03-2020
	Audited
Total Operating Income	46.8
EBIDTA	3.57
PAT	2.26
Total Debt	4.03
Adjusted Net worth	7.83
EBIDTA Margin (%)	7.62
PAT Margin (%)	4.83
Overall Gearing Ratio (x)	0.57

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	LC/BG	LT/ST	28.00	IVR BBB- / Stable ; IVR A3 (Triple B Minus ; Outlook: Stable ; Single A3)	-	-	-
2.	Proposed	LT/ST	16.00	IVR BBB- / Stable ; IVR A3 (Triple B Minus ; Outlook: Stable ; Single A3)			
2.	Secured OD	ST	6.00	IVR A3 (Single A3)			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term / Short Term Bank Facilities – LC/BG	-	-	-	44.00	IVR BBB- / Stable ; IVR A3 (Triple B Minus ; Outlook: Stable ; Single A3)
Short Term Bank Facilities – Secure OD	-	-	-	6.00	IVR A3 (Single A3)