Press Release

N.G. Gadhiya

August 28, 2024

Rating

Security / Facility	Amount (Rs. crore)	Current Rating	Previous Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	160.00	IVR BBB; Stable (IVR Triple B with Stable Outlook)	-	Assigned	Simple
Total	**160.00 (Rupees One hundred and sixty crore only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The rating assigned to the bank facilities of N G Gadhiya (NGG) derives comfort from the long track record of its proprietor with operations in diversified business segments and its healthy order book position indicating a satisfactory near to medium term revenue visibility. The rating also notes stable business performance and comfortable financial risk profile of the entity marked by satisfactory leverage ratios and comfortable debt protection metrics over the past three fiscals. However, these rating strengths are partially offset by its low net worth base, exposure to project execution risk, susceptibility of operating margin to volatile input prices, tender nature of the business in a highly competitive industry and exposure to revenue concentration risk. The ratings also note its proprietorship nature of constitution with instances of withdrawal of profits from the business.

The stable outlook reflects that the business performance of NGG will continue to remain stable in the medium term on the back increase thrust of the government on improvement of infrastructure in the country.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in debt protection metrics

- Improvement in liquidity with better working capital management and reduction in GCA days

Downward Factors

- Moderation in the capital structure with overall gearing ratio deteriorated to over 1x but comfortable interest coverage ratio to above 6x.
- Stretch in timely receipts of contract proceeds impacting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of proprietor with operations in diversified business segments

N G Gadhiya (NGG), a proprietorship concern was established in 2000 by its proprietor Mr. Nilesh Gadhiya. NGC is registered as an 'AA' class category government contractor with Government of Rajasthan for execution of civil projects. Mr. Nilesh Gadhiya has an experience of more than 30 years in civil construction industry. Apart from the proprietor, the entity is also managed by his brothers Mr. Ashwin Gadhiya (Chartered Accountant) and Mr. Hitesh Gadhiya (BA LLB) who have an experience of around 20 years and 15 years respectively in the construction industry. The promoter family, in addition to civil construction, also has their presence in education, hospitality and electrical industry through its group entities.

Healthy order book position indicating a near to medium term revenue visibility

NGG had an order book of Rs.1556.65 crore as on June 30, 2024, which is about 2.42x of FY24 (Prov.) (FY refers to the period from April 01 to March 31) revenue reflecting healthy revenue visibility in medium term. NGG's orderbook is segmentally diversified among overburden removal contracts, building construction contracts and dredging contracts majorly from government entities including urban local bodies and state government undertakings, translating into low counterparty risk. Nevertheless, the entire orderbook remains concentrated in Rajasthan, exposing the firm to changes in government policies/ political upheavals in the state.

Stable business performance

The total operating income (TOI) of NGG grew at a CAGR of ~40.95% i.e., from Rs.323.95 in FY22 to Rs.643.62 in FY24(Prov.) with a y-o-y growth of ~46% in FY23 followed by a y-o-y growth of ~36% in FY24 (Prov.). The growth was mainly driven by timely and higher execution of orders underpinned by regular order flows. However, the operating margin of the entity, though remained moderate, witnessed decline from 6.62% in FY22 to 5.68% in FY23 and then to 5.57% in FY24(Prov.) on account of increase in labour cost vis-à-vis TOI. Further, with improvement in absolute EBITDA and lower finance charges, the PAT margin improved from 2.99% in FY23 to 3.04% in FY24 (Prov.). Fuelled by increase in profit level, net cash accruals have improved from Rs.13.38 crore in FY22 to Rs.20.76 crore in FY24 (Prov.). However, timely execution of projects along with timely receipt of contract proceeds from the authorities will remain critical from the credit perspective.

Comfortable financial risk profile marked by satisfactory leverage ratios and comfortable debt protection metrics

The debt profile of the entity comprises only unsecured loans of Rs.0.35 crore as on March 31, 2024 (Prov.). The capital structure of the entity remains comfortable marked by overall gearing ratio of 0.01x as on March 31, 2024 (Prov.) due to Minimal reliance of the external debt. However, the total indebtedness marked by TOL/TNW remains satisfactory at 2.47x as on March 31, 2024 (Prov.) as against 2.17x as on March 31, 2023. The debt protection metrics as indicated by interest coverage ratio improved and remained comfortable at 27x in FY24 (Prov.) as against 17.89x in FY 23 due to decline in interest cost and corresponding increase in absolute EBITDA. Further, the Total debt to EBITDA and Total debt to GCA both remained stable at 0.01x and 0.02x respectively as on March 31,2024 (Prov.) and as on March 31,2023.

Key Rating Weaknesses

Proprietorship nature of constitution with instances of withdrawal of profits

Given NGG's constitution as a proprietorship firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the proprietor and the risk of dissolution of the firm upon death, retirement or insolvency of the proprietor. Moreover, the proprietorship nature limits NGG's flexibility to tap external channels of financing. Further, the net worth base of the entity stood low at Rs. 37.11 crore as on March 31, 2024 (Provisional) as the proprietor has withdrawn a large portion of its profits during the last few years.

Exposure to project execution risk

The current order book of the entity comprises of civil works. The key clients include various government entities. Around 66% of the orders will take 2.5 -7 years to complete and are therefore exposed to risk of cost overrun or delay in completion. Timely completion of these project along with timely receipt of grant from the authority will be critical from a credit perspective. However, the firm has an established track record of more than two decades to mitigate this risk.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen 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. The impact, however, is partially mitigated by the presence of in-built price escalation clause in major contracts on hand.

Presence in a highly competitive industry and tender nature of the business

The domestic infrastructure/construction sector is characterised with presence of many players with varied statures & capabilities. Moreover, the entity secures its contracts through tender based mechanism.

Revenue concentration risk

The entity faces high geographical concentration risk as maximum of its outstanding order book position are from a single state i.e. Rajasthan. Any delays may impact project execution and consequent revenue generation.

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Infrastructure Companies
- Financial Ratios & Interpretation (Non-Financial Sector).
- Criteria for assigning Rating outlook.
- Policy on Default Recognition
- Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity position of the firm is expected to remain comfortable marked by its expected adequate gross cash accruals in the range of Rs.22.43- Rs. 26.69 crore against its nil debt repayment obligations during FY25-FY27. The entity has earned a gross cash accrual of Rs.20.76 crore in FY24 (provisional) against nil debt repayment obligation. Besides, its average bank limit utilisation at ~49% in the 12 months ended June 2024 is also indicating an adequate liquidity buffer. Moreover, underpinned by its comfortable capital structure the company is having an adequate gearing headroom.

About the Firm

M/s N G Gadhiya (NGG) is established as a proprietorship concern in 2000 by Mr. Nilesh Gadhiya of Jaipur. NGG is engaged in execution buildings, mining, water supply and sewage works, etc. contracts on engineering, procurement and construction (EPC) basis in Rajasthan, Gujarat, Haryana, Jharkhand, Uttar Pradesh etc. NGG is a 'AA' class category government contractor with Government of Rajasthan for execution of civil construction projects.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	473.05	643.62
EBITDA	26.87	35.82
PAT	14.18	19.57
Total Debt	0.35	0.35
Tangible Net Worth	32.80	37.11
EBITDA Margin (%)	5.68	5.57
PAT Margin (%)	2.99	3.04
Overall Gearing Ratio (x)	0.01	0.01
Interest Coverage (x)	17.89	27.00

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					-	-	-
1.	Cash Credit	Long Term	2.00	IVR BBB; Stable	-	-	-
2.	Bank Guarantee	Long Term	158.00	IVR BBB; Stable	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Instrument/Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	2.00	IVR BBB; Stable
Bank Guarantee	-	-	-	-	158.00	IVR BBB; Stable

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-NG-Gadhiya-aug24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.