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N G Projects Limited

September 29, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	16.00	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	204.00	IVR A2+ (IVR A Two plus)	Assigned	Simple
Total	220.00 (Two hundred twenty crore)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of N G Projects Limited (NGPL) derive strength from its experienced promoter with longstanding presence in the industry, reputed clientele coupled with proven project execution capability. NGPL's diversified geographic presence with strong unexecuted order book of Rs.1636.92 crore as on August 31, 2022 which is to be executed in the next two to three years, further supports the rating. Also, the ratings positively note strong liquidity of the company coupled with steady improvement in its revenues, profit level and debt coverage indicators in FY2022 (Provisional). The ratings also take into account favourable demand potential for road infrastructure projects in the country. However, these rating strengths remain constrained by NGPL's exposure to project execution risk for orders in hand, tender driven nature of business in highly fragmented & competitive operating scenario, exposure to sectoral concentration risk and susceptibility of operating margin to volatile input prices.

Key Rating Sensitivities

Upward Factors:

- Sustained improvement in the revenue without compromise in operating margins
- Sustenance of overall gearing and debt coverage indicators
- Successful execution of newly awarded projects

Downward Factors:



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- Moderation in operating income and cash accruals impacting the debt protection metrics on a sustained basis
- Deterioration in the capital structure with moderation in overall gearing to below 1x
- Stretch in the working capital cycle driven by stretch in receivables cycle beyond 100 days

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in civil construction sector**

The founder promoter of the company Mr. Narayansingh Gulabsingh Rathod is a first-generation entrepreneur with extensive experience of about 65 years in the civil construction sector. Mr. Harendrasingh Narayansingh Rathod and Mr. Gopalsinh Narayansingh Rathod (sons of Mr. Narayansingh Gulabsingh Rathod and Managing Directors of the company) also have an experience of 45 years and 25 years respectively in the construction industry and are actively involved in managing the affairs of the company. The directors are well supported by a team of experienced and qualified professionals.

- **Proven project execution capability**

Over the past years, the entity has successfully completed many projects across Gujarat, Rajasthan, Maharashtra, Goa, Jharkhand, Mizoram and Sikkim and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele indicating lower counter party credit risk**

NGPL mainly bids for tenders floated by various government departments/entities majorly in the road construction sector across Gujarat, Rajasthan, Maharashtra, Mizoram, etc. Hence, the counter party credit risk remains relatively low for NGPL though timely receipt of bill payments from government, semi-government agencies is dependent on their timely receipt of sanctioned funds from higher authorities.

- **Diversified geographical presence**

The current order book of the company spans across various states like Gujarat, Rajasthan, Maharashtra, Mizoram, Himachal Pradesh and Jharkhand thereby generating a geographically diversified revenue profile for the company.

- **Strong order book position reflecting a healthy near to medium term revenue visibility**



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NGPL has unexecuted orders of ~Rs.1636.92 crore as on August 31, 2022, translating into 3.59 time of its FY2022 (Prov.) revenue, thereby providing healthy medium-term revenue visibility. These orders have been received from government departments and spans across states like Maharashtra, Rajasthan, Gujarat and Mizoram. Also, the company has secured two major orders worth Rs.1073.80 crore for road construction from NHAI in Himachal Pradesh and Jharkhand under Hybrid-Annuity Model (HAM) which further adds to the healthy order book position of the company. Though the order book is expected to be executed over next 2-3 years, however, timely completion of the same would remain a key monitorable.

- **Significant growth in revenue and profitability in FY2022 (Provisional)**

The operating income of the company remained erratic over the past three fiscals. NGPL's revenue was majorly impacted in FY2021 due to the impact of the COVID 19 pandemic and consequent lockdown restrictions. However, with improvement in covid scenario the company was operational during the entire financial year in FY2022 and reported a year-on-year growth of ~94% in its total operating income from Rs.234.99 crore in FY2021 to Rs.456.18 crore in FY2022 (Prov.) driven by increased flow of orders and higher execution of the same. With increase in TOI, absolute EBITDA also increased from Rs.48.27 crore in FY2021 to Rs.63.02 crore in FY2022 (Prov.). Notwithstanding the rise in absolute EBITDA, the EBITDA margin moderated from 20.54% in FY2021 to 13.81% in FY2022 (Prov.) due to substantial increase in the prices of raw materials coupled with execution of lower margin projects in FY2022 as compared to FY2021. Nonetheless, NGPL achieved a steady rise in PAT to Rs.32.62 crore with GCA of Rs.49.64 crore in FY2022 (Prov.) as against a PAT of Rs.19.31 crore and GCA of Rs. 36.28 crore in FY2021. Further, NGPL achieved a turnover of Rs.97.82 crore during Q1FY23 as against a turnover of Rs.74.37 crore during Q1FY22. Company's ability to sustain the growth in top line without compromise in margins will be a key rating monitorable going forward.

- **Comfortable capital structure coupled with improvement in debt coverage indicators in FY2022 (Provisional)**

The capital structure of the company remained comfortable over the past three account closing dates marked by its healthy net worth base. The overall gearing ratio improved and remained comfortable at 0.04x as on March 31, 2022 (Prov.) against 0.17x as on March 31, 2021 driven by healthy accretion of profits to net worth. Further, with increase in profits and decrease in interest cost owing to subsequent repayment of equipment loans in FY2022 (Prov.), the debt



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protection metrics also improved with interest coverage ratio at 19.51x (8.02x in FY21) in FY21, Total debt to GCA at 0.15x (0.61x as on March 31, 2021) and Total debt to EBITDA at 0.12x (0.46x as on March 31, 2021) as on March 31, 2022 (Prov.).

- **Favourable demand potential for road infrastructure projects**

India has the one of largest road network across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. NGPL being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weakness:

- **Exposure to project execution risk for recently awarded HAM projects**

The current order book of the company majorly comprises of two projects for road construction worth Rs.1073.80 crore to be executed under Hybrid-Annuity Model (HAM) accounting for ~66% of the total order book of the company as on August 31, 2022, The execution of the same will commence from November 2022 onwards which indicates exposure to execution risk. Securing all the necessary approvals and clearances coupled with timely execution and completion of the projects will be the key for achieving growth in revenues and profits.

- **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 company. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

- **Tender driven nature of business in highly fragmented & competitive operating scenario**

NGPL's business is dependent on the company's ability to successfully bid for the tenders. Further, the domestic infrastructure/construction sector is highly fragmented with presence of



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many players with varied statures & capabilities. This restricts NGPL's operating and financial flexibility.

- **Sectoral concentration risk**

A major portion of the NGPL's total revenue is derived from road construction projects across various states thereby exposing the company to sectoral concentration risk. The company is exposed to the risk of reduction in work flow in case of any prolonged down-cycle in the road construction sector. Though the company has ventured into railway infrastructure projects from the last two financial years, yet these form a small percentage of the total revenue mix.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

Liquidity Position: Strong

The liquidity profile of the company is expected to remain strong in the near to medium term with comfortable level of cash accruals which is expected to improve further with increase in scale of operations vis-à-vis its low debt repayment obligation. The capital structure of the company was comfortable with overall gearing ratio of 0.04x as on March 31, 2022 (Prov.) indicating a sufficient gearing headroom. The current ratio stood comfortable at 1.97x as on March 31, 2022 (Prov.). Also, the company has unencumbered cash and cash equivalents of Rs.37.95 crore as on June 30, 2022, which is likely to support its liquidity. Further, the company did not utilise its fund base working capital limits during the last twelve months ended June 30, 2022. The average utilisation of non-fund-based limits also remained comfortable at ~66% during the last twelve months ended June 30, 2022.

About the Company

N G Projects Limited (NGPL) was incorporated in 1969 as a proprietorship firm by Gujarat based Mr. Narayansingh Rathod along with his two sons, Mr. Gopalsinh Rathod and Mr. Harendrasingh Rathod. The proprietorship firm was converted into a private limited company in 2003 and is engaged in contract-based construction and renovation of roads and highways for various Government bodies. NGPL is registered as an 'AA class' government contractor



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in Gujarat, Rajasthan and Maharashtra. Further, the company has presence in the states of Gujarat, Rajasthan, Maharashtra, Goa, Jharkhand, Mizoram, and Sikkim. In the last few years, the company also ventured into the business of railway infrastructure in Maharashtra and Rajasthan, however, these form a small percentage (~12% in FY2022) of total revenue mix.

Financials: Standalone**(Rs. crore)**

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	234.99	456.18
EBITDA	48.27	63.02
PAT	19.31	32.62
Total Debt	22.01	7.39
Tangible Net worth	132.25	164.87
EBITDA Margin (%)	20.54	13.81
PAT Margin (%)	8.14	7.10
Overall Gearing Ratio (x)	0.17	0.04

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: None.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	16.00	IVR A-/Stable	-	-	-
2.	Bank Guarantee	Short Term	204.00	IVR A2+	-	-	-

*One way interchangeability from CC limit to LC limit

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).



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Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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 / Outlook
Cash Credit	-	-	-	16.00	IVR A-/Stable
Bank Guarantee	-	-	-	204.00	IVR A2+
Total				220.00	

*One way interchangeability from CC limit to LC limit

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-NG-Projects-sep22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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.



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