



Press Release

NJR Constructions Private Limited

January 03, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	29.52	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	60.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	89.52 (Rupees Eighty Nine crore and Fifty Two lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of NJR Constructions Private Limited (NCPL) derives strength from the experience of its promoters, improvement in total operating income and capital structure and debt protection metrics in FY21-FY22, and healthy order book position of the company. The ratings are, however, constrained by geographical concentration risk, susceptibility of its profitability to volatile input prices, presence in a highly fragmented and competitive sector with significant price war, project implementation risk and inherent cyclical nature of the real estate sector.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained improvement in operating income along with EBITDA margin improving above 10% and PAT margin above 6% leading to improvement in overall financial risk profile of the company
- Significant improvement in debt protection parameters and liquidity position of the company.
- Progress of the real estate projects as per schedule
- Sale of units as envisaged leading to adequate cash flow generation.



Press Release

Downward Factors

- Any dip in operating income and/or profitability impacting the debt coverage indicators or liquidity
- Moderation in the capital structure with deterioration in overall gearing
- Moderation in liquidity position with increase in working capital intensity
- Any cost or time overrun in completing the ongoing real estate projects
- Weaker-than-anticipated sales performance and lower-than-expected collections/customer advances leading to cash flow mismatches.
- Lower than anticipated booking status in the real estate projects

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

NCPL was established in the year 1990 as a proprietorship concern. In the year 2009 it was converted into private limited company. NCPL is promoted by Mr. Janardhana Rao Nerella having around three decades of experience in civil construction business. The other promoters, namely Mr. Venkateswara Ethendra Kishore Nerella Nath, Mr. Venkata Sunil Kumar Nerella and Mr. Venkata Vinay Kumar Nerella, have more than a decade of experience in civil construction business. The promoters are actively involved in the day-to-day affairs of the company, ably supported by a well experienced second line of executives.

Improvement in total operating income in FY21-FY22

In FY21, the company's total operating income increased by around 15% to Rs.281.26 crore against Rs.244.64 crore in FY20, and further by around 35% to Rs.378.97 crore in FY22 mainly on account of increase in the projects executed by it. The company has achieved total operating income of around Rs.151.77 crore in H1FY23. The EBITDA margin has remained at similar levels at 7.29% in FY20 and FY21, and improved marginally to 7.92% in FY22 due to better average sales realisation in EPC business. However, PAT margin has marginally declined to 4.49% in FY21 over 4.85% in FY20, mainly on account of increase in interest expenses. However, PAT margin has marginally improved to 4.80% in FY22 over 4.49% in FY21 and GCA has also improved from Rs.13.69 crore in FY21 to Rs.20.46 crore in FY22, in line with improvement in profit.

Improvement in the capital structure and debt protection metrics in FY21-FY22



Press Release

The overall gearing ratio and TOL/TNW ratio marginally deteriorated to 1.34x and 1.92x respectively as on March 31, 2021 against 1.11x and 1.71x respectively as on March 31, 2020 mainly on account of higher utilization of working capital limits as on March 31, 2021. However, the same improved and stood at 0.51x and 1.32x respectively as on March 31, 2022 mainly on account of lower utilization of working capital limits as on March 31, 2022. The interest coverage ratio and total debt to GCA ratio improved from 4.91x and 6.86x respectively in FY21 to 5.93x and 2.20x respectively in FY22 in line with the improvement in profitability and GCA during the year.

Healthy order book position of the company

The company had a strong unexecuted order book of Rs.768.42 crore as on December 26, 2022, which is about 2 times of its FY22 revenue. Majority of the orders are expected to be completed by FY24, indicating a satisfactory near to medium term revenue visibility. Successful execution of the projects has helped it in getting repeat and large-sized orders from clients. Due to the healthy client profile, the company has low counterparty credit risk.

Key Rating Weaknesses

Geographical concentration risk

NCPL's total operating income is highly concentrated in the states of Telangana and Andhra Pradesh with around 88% of its revenue coming from these states. NCPL executes majority of its projects for the Telangana and Andhra Pradesh government bodies. The concentration of major order book in the state of Telangana and Andhra Pradesh exposes NCPL's growth prospects to the macro and socio-political upheavals in the region. Consequently, any unrest in these state may hamper the performance of the company.

Susceptibility of its profitability to volatile input prices

Major raw materials used in civil/ railway construction activities are steel and cement which are usually sourced from large players located nearby. Historically, the cost of these raw materials and steel products have been volatile in nature, and as such the company's profitability margins are susceptible to fluctuation in raw material prices.

Presence in a highly fragmented and competitive sector with significant price war

The domestic infrastructure/ construction sector is highly crowded with presence of many players. 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



Press Release

during the bidding process is a matter of concern as the same can dent the margins of the industry as a whole.

Project implementation risk

The company is developing a residential project under the partnership firm with Vasavi Group named as Shreemukh Homes. The project name is 'Sreenivasam'. The project is located in Kondapur, Hyderabad, with 147 flats (Developer share of units is 147 out of 263 units) and a total saleable area of 2.90 lakh square feet. The project is being developed at a total cost of Rs.155.05 crore, out of which Rs.35.19 crore (22.70% of the total cost) had been incurred as on September 30, 2022. The project is being funded by promoters' contribution of Rs.30.00 crore and customer advances of Rs.125.05 crore.

As of September 30, 2022, 18.37% of the project, worth Rs.39.66 crore, had been booked/sold. Of this amount, NCPL had received Rs.3.11 crore till September 30, 2022. Although the project is on its schedule, project implementation risk remains as the cost incurred on construction stood at ~23% as on September 30, 2022. A continuous flow of customer advances is essential for smooth physical progress of the project which will depend on the company's ability to sell at attractive prices. The promoters' vast experience in the EPC business and real estate development mitigates the risk to an extent.

Inherent cyclical nature of the real estate sector

NCPL is exposed to the cyclicity associated with the real estate sector which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. In case of real estate companies, the profitability is highly dependent on property markets. A high interest rate scenario could discourage the consumers from borrowing to finance the real estate purchases and may depress the real estate market.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Infrastructure Companies](#)

[Rating Methodology for Real Estate Entities](#)

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



Press Release

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient gross cash accruals to meet repayments and interest obligations during FY23-25. Average working capital utilization for the 12 months ended October 2022 stood at ~23%, while that of non fund based limits stood high at ~95%. The company does not plan to undertake any major capex in FY23-25. The company has projected an increase in fixed assets of Rs.2.40 crore in FY23, Rs.2.00 crore in FY24 and Rs.2.00 crore in FY25, the same is replacement of machine and equipment. The replacement capex will be through internal accruals only.

About the company

NCPL was established in the year 1990 as a proprietorship concern. In the year 2009 it was converted into private limited company. NCPL is engaged in execution of civil work orders, mainly construction of building, bridges and roads for State and Central Government departments like Central Public Works Department (CPWD), Greater Hyderabad Municipal Corporation, Andhra Pradesh Housing Board, Central Warehousing Corporation, Hindustan Petroleum Corporation Limited etc. NCPL is registered as Class 1 contractor with CPWD and is also registered as a special class contractor with the governments of Andhra Pradesh and Telangana.

NCPL is promoted by Mr. Janardhana Rao Nerella, Mr. Venkateswara Ethendra Kishore Nerella Nath, Mr. Venkata Sunil Kumar Nerella and Mr. Venkata Vinay Kumar Nerella.

Financials (Standalone):

(Rs. crore)		
For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	281.26	378.97
EBITDA	20.50	30.03
PAT	12.76	18.35
Total Debt	93.96	44.93
Tangible Net worth	70.31	88.64
Ratios		
EBITDA Margin (%)	7.29	7.92
PAT Margin (%)	4.49	4.80
Overall Gearing Ratio (x)	1.34	0.51

*Classification as per Infomerics' standards



Press Release

Status of non-cooperation with previous CRA:

CARE Ratings, vide its press release dated July 29, 2022, continued to classify the ratings assigned to NCPL's bank facilities in 'Issuer Not Cooperating' category due to lack of adequate information. Further, ICRA Ratings, vide its press release dated October 28, 2022, continued to classify the ratings assigned to NCPL's bank facilities in 'Issuer Not Cooperating' category due to lack of adequate information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	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.	Overdraft against book debts	Long Term	10.00	IVR BBB-/ Stable	-	-	-
2.	Overdraft against fixed deposit	Long Term	16.52	IVR BBB-/ Stable	-	-	-
3.	Proposed Cash Credit	Long Term	3.00	IVR BBB-/ Stable	-	-	-
4.	Bank Guarantee	Short Term	33.00	IVR A3	-	-	-
5.	Proposed Bank Guarantee	Short Term	27.00	IVR A3	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Nilesh Gupta Tel: (022) 62396023 Email: nilesh.gupta@infomerics.com	Name: Niriksha Gupta Tel: (022) 62396023 Email: niriksha.gupta@infomerics.com
--	--

About Infomerics:



Press Release

Infomerics Valuation and Rating Private Limited (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).

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.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Overdraft against book debts	-	-	-	10.00	IVR BBB-/ Stable
Overdraft against fixed deposit	-	-	-	16.52	IVR BBB-/ Stable
Proposed Cash Credit	-	-	-	3.00	IVR BBB-/ Stable
Bank Guarantee	-	-	-	33.00	IVR A3
Proposed Bank Guarantee	-	-	-	27.00	IVR A3

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



Press Release

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-NJR-jan23.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.