NSL Constructions Private Limited
May 10, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	21.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	89.00	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Reaffirmed/ Assigned for enhanced amount	Simple
Total	**110.00**	**Rupees One Hundred and Ten Crore Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuations and Ratings Private Limited (IVR) has reaffirmed long-term rating IVR BBB- with a Stable Outlook and short-term rating of IVR A3 for the bank loan facilities of NSL Constructions Private Limited (NSLCPL). Further IVR has assigned the rating of IVR A3 with for short-term to enhanced limits of NSLCPL.

The rating continues to draw comfort from its experienced promoters with project execution capabilities, healthy order book position providing revenue visibility in the medium term, comfortable financial performance and capital structure with adequate debt protection metrics. However, the ratings remains constrained by geographical concentration risk, tender-based nature of business & competitive nature of business, working capital intensive nature of operations and susceptibility of operating margin to volatile input prices.

IVR has principally relied on the standalone audited financial results of NSL Constructions Pvt Ltd (NSLCPL) up to 31 March 2023 and projected financials up to FY27, and publicly available information/ clarifications provided by the company’s management.

Key Rating Sensitivities:

Upward Factors

- Significant/sizeable improvement in the scale of operations and geographical diversification resulting.

Sustained improvement in debtor period resulting in reduced working capital intensity.

Downward Factors

- Elongation in working capital cycle leading to stretched liquidity and moderation in the capital structure.
- Decline in the scale of operations resulting in moderation of profitability indicators and non-achievability of projections by sizeable gap.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with project execution capability

NSL Constructions Private Limited (NSLCPL) is promoted by Mr. P.N. Nagabhusana and Mr. P. N. Nithin, both are qualified civil engineers and experienced in the construction industry. Mr. P.N. Nagabhusana has more than 2 decades of experience in the same industry while Mr. P. N. Nithin has more than 5 years of experience. The company has expertise in handling & executing office complexes, residential quarters, non-residential and structural works etc for various Government agencies in the state of Karnataka mainly. The company has successfully completed many projects in the state of Karnataka for various government departments and non-government organisations which indicates low counterparty risk to an extent.

Healthy order book position providing revenue visibility in the medium term

The company has an unexecuted order book position of Rs. 675 Crs as on 31 March, 2024 which is 4.6 of total operating income of FY23. These orders mainly include construction of buildings from the Karnataka government departments, besides some orders from Pondicherry. Most of the contracts in current order book have a pending execution period ranging from 3 to 24 months provides revenue visibility in short to medium term.

Comfortable financial performance and capital structure with adequate debt protection metrics

The company registered revenue of Rs 145.50 Crs in FY23 against Rs 143.05 Crs and further company registered revenue of ~ Rs 213 Crs in FY24. The profitability in terms of EBITDA margin improved marginally from 6.99% in FY22 to 7.51% in FY23 on the back of execution of higher margins order. Similarly, PAT margin also improved marginally from 4.85% in FY22 to 5.02% in FY23. The capital structure of the company stood comfortable in FY23 with overall adjustable gearing of the company is at 0.11x as on March 31, 2023 (PY:0.05x). Total indebtedness remained at same level as reflected by TOL/TNW of 3.71x as on March 31, 2023, as against 3.85x as on March 31, 2022. The adjusted tangible net worth stood moderate at of Rs.37.98 Crs in FY23 as against Rs.25.25 Crs in FY22. The debt protection metrics remained comfortable with interest service coverage ratio (ISCR) at 8.19x (PY:14.17x), while debt service coverage ratio (DSCR) is at 11.55x (PY:13.77x) and total debt to EBITDA is comfortable at 0.37x (PY:0.12x) in FY23.

B. Key Rating Weaknesses

High geographical concentration risk:

Karnataka state contributes majorly to the company's pending order book, which exposes it to economic and political risks pertaining to a single region. However, to reduce its geographical risk, the company has started planning to bid for projects in other states.

Tender-based nature of business & competitive nature of business.

The company majorly procures orders which are awarded through the tender-based system wherein the scale of operation is dependent on the successful bidding and receipt of tenders. This exposes the company to the risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. This apart, any changes in the government policy or government spending on projects may affect the revenues and profits of the firm. The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities, the intense competition from other peers could exsert pressure on the pricing of the tender which further may affect the profit margins. In addition to that, given the nature of projects awarded mainly though government entity, the company is exposed to inherent risk in terms of delays in project execution & cost overrun of certain orders which may arise due to arranging infrastructure, political interference, fluctuation in raw material prices, besides delay in sanction of required working capital limits for the completion of orders, may result in a delay in the realization of revenue growth & could affect the profit margins adversely.

Working capital intensive nature of operations

The operations of the company remained working capital intensive marked by its elongated receivable period of 196 days in FY23 (PY:133 days) due to the nature of business, however the same is offset with the same range of payable days at 157 days in FY23 (PY:98 day), resulting in operating cycle which is below 60 days in FY23.

Susceptibility of operating margin to volatile input prices

The raw material & labour cost forms the majority chunk of the total cost of revenue. As the raw material prices & labour cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour cost. However, the presence of price escalation clause in majority of the contracts protect the margin to an extent.

Analytical Approach: Standalone

Analytical approach has been changed from consolidated to Standalone in current rating review, since the business operations under the partnership firm NB Construction company ceased to execute new projects and all the new projects are being run under NSLCPL now. Accordingly Standalone approach & financials of NSL Construction Private Limited considered for rating purpose.

Applicable Criteria:

- Rating Methodology for Infrastructure Entities
- Financial Ratios & Interpretation (Non- Financial Sector)
- Criteria for assigning rating outlook
- Default Recognition Criteria

Liquidity –Adequate

NSL Constructions has generated gross cash accrual of Rs.7.66 Crs in FY23 against the debt repayment obligations of Rs.0.39 Crs. Further, GCA is expected to be more than Rs 8 Crs against no major fixed term obligations for FY24.The current ratio of the company remained comfortable at 1.18x (PY:1.33x) as on March 31, 2023. The average utilization of fund-based bank limits remained below 10.00% during the past 11 months ended February 2024 indicating sufficient buffer to meet incremental requirements. The company has adequate cash and cash equivalents including FDs (lien free) amounting to Rs.17.59 crore at the end of March 31, 2023 and Rs 52.50 Crs at the end of 31 March,2024.

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, established in 2009. The company is engaged in execution of various government projects like residential schools, college hostels, stadiums, hospitals, bus terminals, godowns and markets over the years.

Financials (Standalone):

(Rs. Crore)

For the year ended*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	143.05	145.50
EBITDA	10.00	10.92
PAT	6.95	7.34
Total Debt	1.21	4.03
Adjustable Tangible Net worth	25.25	37.98
EBITDA Margin (%)	6.99	7.51
PAT Margin (%)	4.85	5.02
Adjustable overall Gearing Ratio (x)	0.05	0.11

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			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	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based Facilities	Long Term	21.00	IVR BBB-/Stable	-	IVR BBB-/ Stable (March 31, 2023) IVR BBB-/ Stable	-	IVR BBB-/ Stable (March 23, 2021)

						(June 23, 2022)		
2.	Non-Fund Based Facilities	Short Term	89.00	IVR A3	-	IVR A3 (March 31, 2023) ----------- IVR A3 (June 23, 2022)	-	IVR A3 (March 23, 2021)

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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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.
Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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 Bank Facility – Fund Based	-	-	-	21.00	IVR BBB-/ Stable
Short Term Bank Facility - Non-Fund Based	-	-	-	89.00	IVR A3

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

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-NSLConstructions-may24.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 Complexity Level of Rated Instruments/Facilities.