



Press Release

Naolin Infrastructure Private Limited

December 14, 2022

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	80.00	IVR BBB/ Stable Outlook	Assigned	Simple
Short Term Bank Facilities	170.00	IVR A3+	Assigned	Simple
Total	250.00	(Rupees Two Hundred and Fifty Crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Naolin Infrastructure Private Limited (NIPL) draws comfort from its experienced promoters and management, growing scale of operations with moderate profitability along with healthy order book reflecting medium term revenue visibility and moderate capital structure and debt protection metrics.

However, these rating strengths are partially offset by geographical concentration risk, tender driven nature of business in highly fragmented & competitive construction sector, inherent risk as an EPC contractor and susceptibility of operating margin to volatile input prices.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with further improvement in profitability, and cash on a sustained basis.
- Manage working capital requirements efficiently with improvement in liquidity position.

Downward Factors

- Moderation in scale of operations or profitability impacting the liquidity profile.
- Moderation in the capital structure.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management

NIPL is promoted by Mr. N. P. Reddy who is the founder director of the company and has more than two decades of experience in various sectors such as Renewable Energy, Water & Wastewater Infrastructure Projects, Power Transmission & Distribution, Telecom, Civil etc.

Mr. Gopala Krishna Suri, Director, has master's degree in M.A.(Economics) from Mysore University and is having 33 years of Banking experience.

Mr. Pratap Chowdary, Director, is an MBA Graduate with 25 years of Banking experience and has good experience in Infrastructure Industry.

Moreover, NIPL is managed by qualified professionals having the requisite technical knowledge and skills thereby providing synergistic advantage to the company in terms of successful project execution.

Growing scale of operations along with moderate profitability

Total operating income (TOI) of Naolin Infrastructure Private Limited (NIPL) has increased with a CAGR of 12% in last three years i.e. from Rs. 148.32 Crore in FY20 to Rs. 201.16 Crore in FY22 due to increase in orders booked by the company, specifically in the civil construction and irrigation segment and higher execution of the same. EBITDA of NIPL increased Y-o-Y by 41% i.e. from Rs. 17.00 crore in FY21 to Rs. 23.94 Crore in FY22 and PAT also increased Y-o-Y by 37% i.e. from Rs. 5.00 Crore in FY21 to Rs. 6.86 Crore in FY22. Gross Cash Accrual of the company increased Y-o-Y by 33% from Rs. 5.76 Crore in FY21 to Rs. 7.69 Crore in FY22.

The profitability margins of the company marked by EBITDA margin improved by 188bps in FY22 i.e. from 10.02% in FY21 to 11.90% in FY22. The operating margins improved due to better margins earned by company on the executed projects. PAT margin improved by 46bps in FY22 i.e. from 2.93% in FY21 to 3.40% in FY22. This improved in-line with EBITDA margin.

Healthy order book reflecting medium-term revenue visibility

The company has a healthy unexecuted order book of Rs. 737.14 Crore as on April 01, 2022 which is 2.41 times of its TOI for FY22. Out of this, the company expects to book revenue of Rs. 305.53 Crore in FY23, Rs. 372.75 Crore in FY24 and balance in FY25. As per 6MFY23



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results, NIPL has earned revenue of Rs. 119.16 Crore, which is ~39% of the total projected revenue for FY23.

Moderate capital structure and debt protection metrics

The overall gearing of the company stood moderate and improved marginally from 0.64x as on 31-Mar-2021 to 0.61x as on 31-Mar-22 due to increase in tangible net worth following accretion of profits to reserves. The debt protection indicators of the company like interest coverage is moderate at 5.60x in FY22 (FY21: 4.79). Total Debt/GCA has improved from 5.88 years in FY21 to 4.78 years in FY22. Further, total indebtedness of the company as reflected by TOL/TNW is moderate, however, deteriorated from 1.21x as on 31-Mar-2021 to 1.46x as on 31-Mar-2022.

Key Rating Weaknesses

Geographical concentration risk

NIPL is exposed to geographical concentration risks as ~74% of the revenue was generated from the state of Telangana only in FY22. However, the company has presence in more than 7 states and is planning to expand its operations in other states as well.

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 company's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure sector is highly fragmented marked by 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. NIPL faces direct competition from various organized and unorganized players in the market.



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Inherent risk as an EPC contractor and susceptibility of operating margin to volatile input prices

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company in the sector.

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. 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 subcontracting) cost. However, presence of price variation clause on eligible project mitigates the risk to some extent.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

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

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

NIPL's liquidity position is adequate marked by expectation of sufficient cushion in cash accruals vis-à-vis its debt repayment obligations in the next 3 years. The average working capital utilization for the last 12 months ended October 2022 stood at ~93% for its fund-based limits and ~92% for its non-fund based limits. The Current Ratio of the company stood at 1.72x as on 31-Mar-2022 as against 1.91x as on 31-Mar-2021 and its operating cycle was 133 days in FY22 (104 days in FY21). The unencumbered cash and bank balance as on 31-Mar-2022 is Rs. 1.17 crore.



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About the Company

Naolin Infrastructure Pvt. Ltd (NIPL) is an ISO 9001:2015 certified company. Mr. N. Prabhakar Reddy is the founder director of the company. NIPL over the past decade has been in EPC of Renewable Energy, Power Transmission & Distribution, Telecom, Irrigation, Water & Wastewater Infrastructure Projects etc. The company is executing projects in Telangana, Andhra Pradesh, Maharashtra, Rajasthan, Haryana, Assam and Arunachal Pradesh.

Financials (Standalone):

(Rs. Crore)

For the year ended* / as on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	169.65	201.16
EBITDA	17.00	23.94
PAT	5.00	6.86
Total Debt	33.91	36.75
Tangible Net Worth	53.15	60.01
Ratios		
EBITDA Margin (%)	10.02	11.90
PAT Margin (%)	2.93	3.40
Overall Gearing Ratio (x)	0.64	0.61

*Classification as per Infomerics` standards

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	80.00	IVR BBB/ Stable	--	--	--
2.	LCs / BGs	Short Term	170.00	IVR A3+	--	--	--



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About Infomerics:

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.

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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
Cash Credit	-	-	-	80.00	IVR BBB/ Stable
LCs / BGs	-	-	-	170.00	IVR A3+



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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Naolin-dec22.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.

