# Press Release

## Neelkanth Infratech Private Limited

**August 06, 2024**

**Ratings**

| Security / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|---|
| Long Term Bank Facilities | 15.00 | IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook) | - | Assigned | Simple |
| Short Term Bank Facilities | 45.00 (including proposed limit of 25.00) | IVR A3 (IVR A Three) | - | Assigned | Simple |
| **Total** | **60.00 (Rupees 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 ratings assigned to the bank facilities of Neelkanth Infratech Private Limited (NIPL) derives comfort from its experienced promoters, sustained improvement in scale of operation along with moderate financial risk profile marked by moderate gearing ratios and satisfactory debt protection metrics coupled with a satisfactory order book position indicating a satisfactory near to medium term revenue visibility. However, these rating strengths are partially offset by its revenue concentration risk, exposure to project execution risk, ssusceptibility of operating margin to volatile input prices, presence in a highly competitive industry, tender driven nature of the business and its working capital-intensive nature of operation.

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

**Key Rating Sensitivities:**

**Upward Factors**

- Growth in scale of operations with improvement in profitability leading to sustained improvement in net cash accruals
- Improvement in the capital structure with improvement in overall gearing ratio to below 1x and/or improvement in debt protection metrics
- Improvement in revenue diversification

- Effective management of working capital leading to reduction in its operating cycle and improvement in liquidity position

**Downward Factors**

- Dip in operating income and/or profitability impacting the debt protection metrics
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x and/or moderation in interest coverage ratio to below 3x
- Moderation in the operating cycle leading to any deterioration in liquidity profile

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

**Experienced promoters**

The current promoters of the company are Mr. Tejabhai Kangad and Mr. Khimji Bhai A. Kangad. Mr. Tejabhai Kangad has an extensive experience of more than three decades in the construction industry by virtue of being a proprietor of a firm named Patel Construction and Mr. Khimji Bhai A. Kangad has experience of around a decade in the construction industry. The promoters of NIPL have presence in the civil construction of more than 10 years. The main promoter of NIPL, Mr. Teja Kangad has an experience of more than three decades in this industry and Mr. Khimji Kangad has experience of around 10 years in this industry. Both of them together looks after the overall operation of the company along with adequate support from a team of qualified professionals.

**Satisfactory order book position indicating a near to medium term revenue visibility**

As on July 24, 2024, the company has an outstanding order amounting ~Rs.581.23 crore which is about 2.12 times of its FY24 (Prov.) (FY refers to the period from April 01 to March 31) revenue. The orders are expected to be completed within the next 12-18 months years, indicating a satisfactory near to medium term revenue visibility.

**Sustained improvement in scale of operation**

The total operating income of NIPL grew at a CAGR of ~71% during FY22-FY24 (Prov.) with a y-o-y growth of ~146% in FY23 followed by a y-o-y growth of ~18% in FY24 (Prov.). The growth was mainly driven by timely and higher execution of orders underpinned by regular order flows. The operating margin of the company remained healthy and witnessed gradual improvement from 4.60% in FY22 to 5.45% in FY23 and further to 9.71% in FY24 (Prov.) on the back of higher absorption of fixed overheads attributable to increase in scale of operations, execution of few high margin orders and decline in raw material procurement expenses.

Further, with improvement in absolute EBITDA, the PAT margin also improved from 2.32% in FY22 to 5.34% in FY24 (Prov.). Fuelled by increase in profitability, net cash accruals have also improved from Rs.3.17 crore in FY22 to Rs.19.11 crore in FY24 (Prov.). However, timely execution of projects along with timely receipt of contact proceeds from the authorities will remain critical from the credit perspective.

**Moderate financial risk profile marked by moderate gearing ratios and satisfactory debt protection metrics**

The capital structure of the company remained moderate over the past three account closing dates mainly due to its low net worth base and high equipment loans, though the leverage ratios has witnessed improvement in the past three account closing dates. The long-term debt equity ratio and overall gearing ratio improved to 1.13x and 1.36x respectively as on March 31, 2024 (Prov.) from 2.71x and 4.49x respectively as on March 31, 2023 due to lower utilisation of cash credit limits as on balance sheet date, scheduled repayment of equipment loans and accretion of profit to reserves. Further, the total indebtedness marked by TOL/TNW also improved to 4.48x as on March 31,2024 (Prov.) from 9.83x as on March 31,2023. The debt protection metrics of the company remained satisfactory over the past three fiscals. Despite increase in interest cost as a consequence to increase in equipment term loans, the debt protection metrics as indicated by interest coverage ratio improved to 9.62x in FY24 (Prov.) from 8.06x in FY23 due to increase in absolute EBITDA. Total debt to EBITDA and Total debt to NCA improved to 1.18x & 1.65x respectively as on March 31,2024 (Provisional) from 2.98x & 4.27x respectively as on March 31,2023 due to lower utilisation of cash credit limits and higher cash accruals.

**Key Rating Weaknesses**

**Revenue concentration risk**

The company is exposed to high geographical concentration risk as all of its outstanding order book position are from the state of Gujarat. Any delays due to any disruption in the state may impact project execution and consequent revenue generation. Moreover, as per the order book of NIPL, ~64% of its pending work orders are sub-contracted from Patel Construction Co., Gandhidham, which is a proprietorship firm of Mr. Tejabhai Kangad, the promoter director of NIPL. Further, ~ 41% of total revenue in FY24 (Prov.) is from Patel Construction Co. Thus, the company faces high clientele concentration risk.

**Exposure to project execution risk**

The current order book of the company comprises of civil works. The key clients include Patel Construction Co. (a proprietorship firm of Shri Tejabhai Kangad), Adani Ports and Special Economic Zone Ltd, Howe Engineering Projects (India) Pvt. Ltd, Deendayal Port Authority. Since these projects are at their nascent stage of construction and are therefore exposed to risk of cost overrun or delay in completion.

**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 company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, the presence of escalation clause (for raw materials) in few of the contracts protect the margin to an extent.

**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 company secures its contracts through tender based mechanism.

**Working capital intensive nature of operation**

The business of the company remained working capital intensive as a large part of its working capital remained blocked in earnest money deposits, retention money, WIP and in receivables. To fund its working capital requirements the company relies on bank borrowings and stretch its creditors. The operating cycle and gross current asset days of the company stood moderate at 55 days and 133 days respectively in FY24 (Prov.).

**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 company is expected to remain comfortable marked by its expected adequate gross cash accruals in the range of Rs.21- Rs.22 crore against its debt repayment obligations of Rs.5.71 crore to Rs.6.50 crore during FY25-FY27. The company has earned a gross cash accrual of Rs.19.11 crore in FY24 (provisional) against debt repayment obligation of Rs.5.48 crore. Besides, its average bank limit utilisation at ~49% in the 12 months ended June 2024 is also indicating an adequate liquidity buffer.

**About the Company**

Neelkanth Infratech Private Limited (NIPL) was incorporated in May 2020 as private limited company by one Kangad family of Gandhidham, Gujarat. The company is engaged in Engineering, Procurement and Construction (EPC) activities pertaining to bridges, terminals, roads, oil jetties, godowns, as well as providing operation and maintenance (O&M) services. The current promoters of the company are Mr. Tejabhai Kangad and Mr. Khimji Bhai A. Kangad. NIPL is a part of Neelkanth Group of Gandhidham which has presence in diversified business segments such as business of manufacturing and trading activity of Salt and other chemicals, liquid storage terminal handling, warehousing, trading of products such as Sesame Seeds, Timber, Groundnuts and Civil Construction, Freight & Transportation amongst others. The promoters of NIPL have presence in the civil construction of more than 10 years.

**Financials (Standalone):**

**(Rs. crore)**

| For the year ended/ As on* | 31-03-2023 | 31-03-2024 |
|---|---|---|
| | Audited | Provisional |
| Total Operating Income | 232.52 | 274.52 |
| EBITDA | 12.68 | 26.66 |
| PAT | 5.65 | 14.67 |
| Total Debt | 37.83 | 31.46 |
| Tangible Net Worth | 8.42 | 23.06 |
| EBITDA Margin (%) | 5.45 | 9.71 |
| PAT Margin (%) | 2.43 | 5.34 |
| Overall Gearing Ratio (x) | 4.49 | 1.36 |
| Interest Coverage (x) | 8.06 | 9.62 |

* *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 (Long Term/Short Term) | 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 | 15.00 | IVR BBB-; Stable | - | - | - |
| 2. | Bank Guarantee | Short Term | 20.00 | IVR A3 | - | - | - |
| 3. | Bank Guarantee (Proposed) | Short Term | 25.00 | IVR A3 | - | - | - |

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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.

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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: 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 | - | - | - | - | 15.00 | IVR BBB-; Stable |
| Bank Guarantee | - | - | - | - | 20.00 | IVR A3 |
| Bank Guarantee (Proposed) | - | - | - | - | 25.00 | IVR A3 |

**Annexure 2: Facility wise lender details:**
**https://www.infomerics.com/admin/prfiles/len-neelkanth-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.