Press Release

Nithin Sai Construction

April 29, 2022

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity indicator
1	Long Term Bank facilities	15	IVR BBB; Stable (IVR Triple B with Stable Outlook)	Assigned	Simple
2	Short Term Bank Facilities	170	IVR A3+ (IVR A Three Plus)	Assigned	Simple
	Total	**185 (Rupees one hundred and eighty-five crores only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Nithin Sai Construction (NSC) derives comfort from its long track record of operation under experienced partners, proven project execution capability, reputed clientele and strong order book giving visibility to revenue in the medium term. Further, the rating also considers healthy improvement in NSC's financials in FY22 (provisional) with satisfactory profitability and comfortable capital structure with healthy debt coverage indicators. However, these rating strengths remain constrained due to susceptibility of profitability to volatile input prices, exposure to customer concentration, presence in a highly competitive industry and tender driven nature of the business. The ratings also notes its partnership nature of constitution.

Key Rating Sensitivities

Upward Factors

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in liquidity.
- Sustenance of the capital structure with improvement in debt protection metrics.
- Increase in order book position and diversification in regional presence.

Downward Factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile on a sustained basis.
- Moderation in the capital structure with moderation in the overall gearing to over 1x
- Increase in working capital intensity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operation under experienced partners

Gonuguntla Nithin Sai, managing partner, has experience of around a decade in the construction industry and is well assisted by a team of experienced professionals. Further, being in civil construction works since 1995, NSC, has a considerable experience and a proven track record.

Proven project execution capability

NSC has started its operation from 2006 and has successfully completed many projects in and around Andhra Pradesh, Karnataka, Delhi, Tripura, Manipur, and Nagaland for various government departments as well as of different private companies. Thus, the firm is enjoying a proven track record. In order to manage the projects in a better way and to grow in a balanced way, the promoters have a policy to take up short to medium term projects (1-2 years) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele albeit customer concentration

The firm is engaged in civil construction works like construction of Soler and Wind power projects, Asphalt paving, concrete paving, excavation, Telecom cables laying and electric transmission lines, construction of Bridges and flyovers and other EPC, Trunkey Projects. The firm mainly undertakes projects from National Highways and Infrastructure Development Corporation, PWD of different states, Bangalore water supply and sewerage board etc. Since majority of the projects are funded under Government departments, imparts comfort with low counterparty risk.

Strong order book giving visibility to revenue in the medium term

NSC has a strong order book position comprising multiple contracts aggregating to Rs 758.00 Crore as on March 31, 2022, (which is around 2.11 times of FY22(Prov.) turnover) to be executed within next 1-2 years, indicating a satisfactory near to medium term revenue visibility.

Healthy growth in revenue coupled with satisfactory profit margins

The firm's top line witnessed an increasing trend over the last two years from FY20 audited - FY22 provisional as the total operating income grew from Rs.83.33 crore in FY20 to Rs.149.96 crore in FY21 and to Rs.359.82 crore in FY22 provisional, registering a healthy growth of ~139% y-o-y. The growth in revenue is driven by higher execution of order. The EBITDA margin remained satisfactory at 13.83% in FY22 provisional. Further, the PAT margin improved from 4.82% in FY21 to 6.45% in FY22 provisional, due to decline in finance charges vis-à-vis total operating income.

Comfortable capital structure with healthy debt coverage indicators

The firm had reported an improvement in capital structure as on March 31, 2022 with debt to equity ratio of 0.38x (1.25x as on March 31, 2021) and Overall gearing of 0.61x (1.42x as on March 31, 2021). The improvement in capital structure is driven by scheduled repayment of equipment loan and accretion of profit to reserves. Total Outside Liabilities over Tangible Net worth has improved and remained below unity at 0.88x as on March 31, 2022 (1.89x as on March 31, 2021).

Key Rating Weaknesses:

Susceptibility of profitability to volatile input prices

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts imparts comfort to an extent.

Presence in a highly competitive industry and tender driven nature of the business

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 ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities restricting the pricing power of the participants.

Partnership nature of constitution

Given NSC's constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency of the partners. Moreover, the partnership nature limits NSC's flexibility to tap external channels of financing.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity profile of NSC is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.41 crore to ~Rs.55 crore vis a-vis its debt repayment obligations ranging from Rs.5 crore to Rs.5.50 crore during FY23-FY25. Further, the NSC has no planned capex or plan for availment of long-term debt which imparts comfort. Further, on the back of its comfortable capital structure, the firm has adequate gearing headroom. Average working capital utilisation was comfortable at ~30.50% during the last 12 months ended in March 2022, which imparts satisfactory liquidity buffer.

About the Firm

M/s Nithin Sai Construction (NSC) was established in the year 1995 as a construction aggregate supply proprietorship concern by Mr. Gonuguntla Suryanarayana. Later during February 2006, it was converted into a Partnership firm.

In the year 2009, the firm expanded its business into civil construction as it is currently engaged in civil construction works like construction of Soler and Wind power projects, Asphalt paving, concrete paving, excavation, Telecom cables laying and electric transmission lines, construction of Bridges and flyovers and other EPC, Turnkey Projects. The firm renders its service to the states like Delhi, Tripura, and Karnataka and Andhra Pradesh.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	149.96	359.82
Total Income	150.41	359.82
EBITDA	21.58	49.77
PAT	7.25	23.23
Total Debt	42.60	40.35
Tangible Net worth	29.98	65.96
EBITDA Margin (%)	14.39	13.83
PAT Margin (%)	4.82	6.45

For the year ended* / As On	31-03-2021	31-03-2022
Overall Gearing Ratio (x)	1.42	0.61

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/ Facilities	Current Rating (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.	Cash Credit	Long Term	15.00	IVR BBB / Stable	-	-	-
2.	Bank Guarantee	Short Term	170.00	IVR A3+	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Ms. Nidhi Sukhani	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: nsukhani@infomerics.com	Email: apodder@infomerics.com

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).

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
Long Term Bank Facilities -Cash Credit	-	-	-	15.00	IVR BBB / Stable
Short Term Bank Facilities – Bank Guarantee	-	-	-	170.00	IVR A3+

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Nithin-Sai-Apr22.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.