Nithin Sai Construction
February 20, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	15.00	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Revised from IVR BBB; Stable (IVR Triple B with Stable Outlook)	Simple
Short Term Bank Facilities	170.00	IVR A2 (IVR A Two)	Revised from IVR A3+(IVR A Three Plus)	Simple
Total	**185.00 (Rupees One hundred eighty-five crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Nithin Sai Construction (NSC) is primarily due to healthy growth in its revenue coupled with satisfactory profit margins in 9MFY23 and strong near to medium term revenue visibility underpinned by its healthy order book position. The ratings continue to derive comfort from its long track record of operation under experienced partners, proven project execution capability, reputed clientele and comfortable capital structure with healthy debt coverage indicators. However, these rating strengths remain constrained due to susceptibility of its profitability to volatile input prices, exposure to customer concentration risk, presence in a highly competitive industry and tender driven nature of the business. The ratings also note 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 debt service parameters on a sustained basis
- Moderation in the capital structure with moderation in the overall gearing to over 1x

- Increase in working capital intensity leading to moderation in liquidity

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.

- **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 firm has 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.1921.95 crores, i.e. ~5.34 times of its FY22 total operating revenue (i.e. Rs 359.84 Crore) as on Dec. 31, 2022 to be executed in next three years indicating a satisfactory near to medium term revenue.

- **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 audited as the total operating income (TOI) grew from Rs.83.33 crore in FY20 to

Rs.149.96 crore in FY21 and to Rs.359.84 crore in FY22, registering a significant y-o-y growth of ~140%. The growth in revenue is driven by higher execution of order. With growth in TOI, the absolute EBITDA has also improved in FY22. However, EBITDA margin moderated marginally from 14.39% in FY21 to 13.85% in FY22. This marginal decline in margin is due to execution of few lower margin contracts. However, on the back of decline in finance charges, the PAT margin improved from 4.82% in FY21 to 6.29% in FY22. The firm reported an increase in revenue of ~36% in 9MFY23 to Rs.256 crore (as compared to Rs.188.30 crore in 9MFY22) due to higher execution of orders.

- **Comfortable capital structure with healthy debt coverage indicators**

The capital structure of the firm remained comfortable marked by debt-to-equity ratio of 0.48x (1.25x as on March 31, 2021) and Overall gearing of 0.62x (1.62x as on March 31, 2021) as on March 31,2022. Total Outside Liabilities over Tangible Net worth has also remained comfortable at 1.18x 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. 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.

- **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)

Criteria of assigning rating outlook

Liquidity: Adequate

The liquidity profile of NSC is expected to remain adequate marked by its expected satisfactory cash accrual around~Rs.43.16 crore to Rs.65.04 crore during FY23-FY25 vis a-vis its debt repayment obligations ranging from Rs.5.14 crore to Rs.5.50 crore. Further, 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 ~16% during last 12 months ending in December 2022, which imparts satisfactory liquidity buffer.

About the Firm

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 of Nithin Sai Construction (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022	31.12.2022
	Audited	Audited	Unaudited
Total Operating Income	149.96	359.84	256.00
EBITDA	21.58	49.85	32.00

PAT	7.25	22.68	
Total Debt	42.60	40.95	
Tangible Net worth	29.98	65.67	
EBITDA Margin (%)	14.39	13.85	12.50%
PAT Margin (%)	4.82	6.29	
Overall Gearing Ratio (x)	1.42	0.62	
Interest Coverage Ratio (x)	5.08	9.53	

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

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 Outlook	IVR BBB; Stable Outlook (Apr 29, 2022)	-	-	-
2.	Bank Guarantee	Short Term	170.00	IVR A2	IVR A3+ (April 29, 2022)	-	-	-

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About Infomerics Ratings:

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
Long Term Bank Facilities – Cash Credit	-	-	-	15.00	IVR BBB+; Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	170.00	IVR BBB+; Stable outlook/ IVR A2

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-NithinSai-feb23.pdf

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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.