Nalanda Engicon Private Limited

July 11, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	27.81	IVR BBB+/ Stable (IVR triple B plus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	222.19 (Including proposed limit of Rs. 4.29 crore)	IVR A2 (IVR A two)	Assigned	Simple
Total	**250.00** (INR Two hundred fifty crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Nalanda Engicon Private Limited (NEPL) derives comfort from its long operational track record under experienced promoters, proven execution capability supported by reputed client base with low counter party risk. Further, the ratings also consider healthy order book position reflecting satisfactory revenue visibility, coupled with its comfortable capital structure with satisfactory debt protection metrics. These rating strengths are partially offset by exposure to relatively moderate scale of current operations. Further, the rating also notes tender driven nature of its business in highly fragmented and competitive operating scenario coupled with moderate client and geographical concentration risks.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure with improvement in debt protection metrics
- Timely and proper execution of existing order book and diversification in regional presence.

Downward Factors

- Decline in the operating income or profitability impacting the cash accrual and debt coverage indicators
- Moderation in the capital structure with deterioration in the debt protection metrics
- Stretched receivables position impacting the liquidity position of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long operational track record

NEPL has more than five decades of long track record in the industry, and the promoters Mr. Bibekanand Kumar and Mr. Saryoo Prasad Sinha having an experience of more than two decades in civil construction field and have long standing presence of the promoters in the industry has helped the company to establish a healthy relationship with its customers and suppliers.

Healthy order book, moderate geographical diversification

The company has a strong order book amounting to ~Rs. 1680 crore which is around 4.28x the current revenue of FY2023 (provisional) providing revenue visibility in near to medium term. Successful execution of the projects has also helped in getting repeated and large-sized orders from clients. Timely execution of the contracts awarded will be key for the company in scaling up the current operations.

Reputed clientele with low counter party risk

NEPL mainly bids for tenders of various government departments and is mainly engaged in water and wastewater management. Major client base of the company consists of public works department, health department, municipal and engineering departments of various state governments. Majority of customers being government departments impart comfort with low counterparty risk though timely receipt of bill payments from semi-government agencies is dependent on their timely receipt of sanctioned funds from higher authorities.

Comfortable capital structure and debt coverage indicators

The capital structure of the company had remained comfortable as on March 31, 2023(Prov.), with its satisfactory net worth base of Rs.94.06 crore supported by accretion of profits. Further, the adjusted tangible net worth (ATNW) stood at Rs.81.94 crore (excluding investments in group company worth Rs.12.12 crore). The Overall gearing improved to 0.51x as on March 31, 2023(Prov.) from 0.74x as on March 31, 2022. Long term debt to equity also improved and stood at 0.27x as on March 31, 2023(Prov.) from 0.47 as on March 31, 2022. Overall indebtedness of the company marked by TOL/TNW improved and stood at 1.86x as on March 31, 2023(Prov.), against 1.97x as on March 31, 2022. Debt protection metrics of the company remained comfortable with improvement in the interest coverage ratio 8.33x in FY23 (Prov.) from 2.32x in FY22 led by increase in operating profit. Total debt to EBIDTA also improved to 1.05x in FY23 (Prov.) from 2.32x in FY22 followed by improvement in Total Debt to GCA to 1.44 years in FY23 (Prov.) from 4.53 years in FY22. DSCR also remains comfortable at 2.49x in FY23 (Prov.).

Key Rating Weaknesses

Relatively moderate scale of operations

The company witnessed a substantial growth in the topline with CAGR 14% during the past three years. However, despite the stated improvement, the scale remains moderate with revenue of Rs. 392.54 crore during FY2023 (provisional). The increase in the topline will be a key rating determinant, going forward.

Moderate client and geographical concentration risks

The company has moderate client concentration risk, with the majority of revenues and order book contributed by few clients. The company participates in tenders and executes its projects mainly in the state of Bihar, Sikkim, Odisha, Delhi and UP. However, the company is trying to expand its bid to new states like, Madhya Pradesh thus exposing the company to moderate geographical concentration risk.

Tender driven nature of business in highly fragmented & competitive operating scenario

The domestic infrastructure works sector is highly crowded with presence of many players with varied statures & capabilities due to which profitability margins come under pressure. Further, the company receives its work orders from government departments through tenders floated by the departments. Economic vulnerability 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 is the sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning rating outlook.

Liquidity–Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its expected adequate cash accruals as against its nil debt repayment obligations. The company is expected to generate cash accruals to the tune of ~Rs.39 crore to Rs.50 crore in the projected years FY24 to FY26. The average utilisation of bank borrowings remained at 86.38% during the past 12 months ended May 2023 indicating a moderate liquidity buffer. Moreover, the absence of any major capex plan also provides a liquidity cushion.

About the Company

Set up in 1965 as a proprietorship firm and reconstituted as private limited company in 2007, NEPL was initially engaged in boring tube wells and manufacturing drilling machines. It currently executes civil construction projects related to water supply, roads and bridges. The company is currently promoted by Mr Bibekananda Kumar and Mr Saryoo Prasad Sinha.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Provisional
Total Income	224.71	392.54
EBIDTA	22.93	45.84
PAT	5.77	23.05
Total Debt	53.14	48.29
Tangible Net Worth	72.20	94.06

Adjusted Tangible Net Worth	64.23	81.94
EBDITA Margin (%)	10.20	11.68
PAT Margin (%)	2.54	5.82
Overall Gearing Ratio (x)	0.74	0.51

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA:

CRISIL Rating has moved the rating of NEPL into the Issuer Non-Cooperating category on account of inadequate information and lack of management cooperation in the rating procedure despite repeated follow ups as per the Press Release dated May 30, 2023.

CARE Rating has moved the rating of NEPL into the Issuer Non-Cooperating category on account of information risk in the rating procedure despite repeated follow ups as per the Press Release dated November 29, 2022.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	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.	WCTL (ECLGS)	Long Term	2.21	IVR BBB+/ Stable	-	-	-
2.	WCTL (UGECL)	Long Term	3.00	IVR BBB+/ Stable			
3.	Cash Credit	Long Term	20.00	IVR BBB+/ Stable	-	-	-
4.	Overdraft	Long Term	2.60	IVR BBB+/ Stable			
5.	Bank Guarantee	Short Term	217.90	IVR A2	-	-	-
6.	Proposed Bank Guarantee	Short Term	4.29	IVR A2			

Press Release

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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.

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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
WCTL (ECLGS)	-	-	FY27	2.21	IVR BBB+/ Stable
WCTL (UGECL)	-	-	FY27	3.00	IVR BBB+/ Stable
Cash Credit – I	-	-	-	10.00	IVR BBB+/ Stable
Cash Credit – II	-	-	-	10.00	IVR BBB+/ Stable
Overdraft – I	-	-	-	0.10	IVR BBB+/ Stable
Overdraft – II	-	-	-	2.50	IVR BBB+/ Stable
Bank Guarantee – I	-	-	-	80.00	IVR A2
Bank Guarantee – II	-	-	-	56.00	IVR A2
Bank Guarantee – III	-	-	-	49.90	IVR A2
Bank Guarantee – IV	-	-	-	32.00	IVR A2
Proposed Bank Guarantee	-	-	-	4.29	IVR A2

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-nalanda-jul23.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.