

Press Release

N.E. Agency

March 30, 2018

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Cash Credit	5	IVR BB ; Stable (IVR Double B with Stable Outlook)	Assigned
Long Term /Short Term Bank Facilities (Proposed)	21	IVR BB; Stable /IVR A4 (IVR Double B with Stable Outlook/ IVR A Four)	Assigned
Total	26		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of N.E. Agency (NEA) is tempered by its small scale of operation with concentrated portfolio, volatile input prices, highly fragmented & competitive nature of the construction sector with significant price war and elongated collection period. NEA being a proprietorship entity the ratings also considers risk of withdrawal of capital. However, the ratings are underpinned by its experienced proprietor, proven project execution capability, reputed clientele, strong order book reflecting satisfactory medium term revenue visibility, improvement in financial performance and comfortable capital structure with healthy debt protection metrics. Growth, profitability, gearing level and efficient working capital management remain the key rating sensitivities.

List of Key Rating Drivers

- Experienced proprietor
- Proven project execution capability
- Reputed clientele
- Strong order book reflecting satisfactory medium term revenue visibility
- Improvement in financial performance
- Comfortable capital structure with healthy debt protection metrics
- Risk of withdrawal of capital

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- Small scale of operation
- Concentrated portfolio
- Volatile input prices
- Highly fragmented & competitive nature of the construction sector with significant price war
- Elongated collection period

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced proprietor

Smt. Nabam Yani looks after the overall operations of the entity. She is having around two decades of experience in the construction sector. She is supported by a team of experienced professionals.

Proven project execution capability

Over the past years, the entity has successfully completed many projects across Arunachal Pradesh and Assam. In order to manage the projects in a better way, the entity has a policy to apply for short to medium duration projects (1-3 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

The entity mainly bids for tenders floated by various government departments/entities and is mainly engaged in road and building construction for various government departments through direct contracts. Moreover, NEA also works as a sub-contractor for big contractors. Presently, the entity is working for Gammon Infrastructure Projects Ltd for road contracts in Assam and for Simples Infrastructure Ltd for earth works in Assam. Further, the scope of work of projects undertaken by NEA entails widening, strengthening and improvement of existing roads where necessary regulatory clearances are already in place.

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Strong order book reflecting satisfactory medium term revenue visibility

The entity has a strong order book position (Rs.143.16 crore as on December 31, 2017) with orders across 7 contracts which is about 5.54 times of its FY17 construction revenue (i.e. Rs. 25.84 crore). The orders are expected to be completed within next one-three years, indicating a satisfactory medium term revenue visibility.

Improvement in financial performance

NEA was mainly engaged in building construction works which are relatively of low margin. Since, FY17 the entity predominantly started executing road projects in view of higher growth prospects in road infrastructure driven by increase government focus on road infrastructure of Arunachal Pradesh and its connecting states. In FY17, NEA's total operating income declined marginally due to slower execution of some government building construction contracts owing to delay in payment clearances. However, the EBIDTA margin improved from about 5.74% in FY16 to 14.42% in FY17 driven by higher execution of road contracts during the year which fetch relatively higher margin. Further, with improvement in EBIDTA, the PAT margin also improved from 1.01% in FY16 to 2.36% in FY17. In 9MFY18, NEA achieved total operating income of Rs.22.65 crore with a comfortable EBIDTA margin of 9.87%.

Comfortable capital structure with healthy debt protection metrics

The proprietors had infused Rs.26.81 crore during FY17 to support the business operations. On the back of the same the long term debt equity ratio and the overall gearing ratio were comfortable at 0.13x and 0.28x respectively as on March 31, 2017. However, it may increase in future with the growth in the company though expected to remain in a comfortable range. Moreover, the debt protection metrics of the company also remained satisfactory, marked by the interest coverage ratio at 8.16x in FY17 and Total debt to GCA at 2.71x as on March 31, 2017. Total debt / EBITDA was at 2.38x as on March 31, 2017. Further, the interest coverage ratio remained satisfactory at 8.43x in 9MFY18.

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Key Rating Weaknesses

Small scale of operation

NEA is a small sized player in the construction industry, with total income from operation of Rs.26.78 crore in FY17 (FY refers period from April 1 to March 31) and a net worth base of Rs.32.88 crore as on March 31 2017. Further, in 9MFY18 (refers period from April 1 to December 31) the entity has achieved a total operating income of Rs.22.65 crore.

Risk of withdrawal of capital

Being a proprietorship entity, the entity is exposed to the risk of withdrawal of capital. Any draws from the capital is a key monitorable for rating.

Concentrated portfolio

NEA's presence in the construction segment has predominantly remained in the execution of road projects in Assam (around 81% of total order book of Rs.143.16 crore as on December 31, 2017) leading to sectorial and geographical concentration of portfolio. Any political turbulence in Assam may negatively impact the credit quality of the entity. The customer concentration of NEA is also high, as the top five customers contributed 85% of the total revenue for FY17.

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 input prices are generally volatile and consequently the profitability of the entity remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts protect the margin to an extent.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded 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.

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Elongated collection period

The collection period (including retention money) increased from 72 days to 115 days over the past few years as most of the clients are government entities having various procedural requirements or large contractors where payments are relatively slow. Due to stretched collection period the operating cycle of the entity has deteriorated to 110 days in FY17. The working capital requirement of the entity is mainly funded through credit period availed from its creditors based on its established relationships, bank borrowings and funds infused by the proprietor.

Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Entity

M/s N.E. Agency (NEA) was set up and started operation in 1996 by Smt. Nabam Yani of Itanagar, Arunachal Pradesh. The entity is engaged in execution of civil construction of road and buildings. NEA is a registered Class 1 Government Contractor of Arunachal Pradesh. NEA is mainly operating in Arunachal Pradesh and Assam. The entity mainly caters to the government contracts through tender participation and also works as sub-contractee. The day to day activities of the entity are looked after by the proprietor, Smt. Nabam Yani having about two decades of experience in the construction sector with support from a few experienced professionals.

Financials (Standalone):

	(Rs. Crore)	
For the year ended* / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	27.47	26.78
EBITDA	1.58	3.86
PAT [^]	1.01	2.36
Total Debt	6.52	9.18
Tangible Net worth	3.70	32.88
EBITDA Margin (%)	5.74	14.42
PAT Margin (%)	3.69	8.83
Overall Gearing Ratio (x)	1.76	0.28

*Classification as per Infomerics' standards.

[^] (Tax not considered being a proprietorship entity)

Status of non-cooperation with previous CRA: Not Applicable

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Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Fund Based Facilities- Cash Credit	Long Term	5	IVR BB ; Stable Outlook			
2.	Long Term /Short Term Bank Facilities (Proposed)	Long Term /Short Term	21	IVR BB ;Stable Outlook /IVR A4			

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.

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About Infomerics:

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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 Fund Based Facilities- Cash Credit	-	-	-	5	IVR BB / Stable Outlook
Long Term /Short Term Bank Facilities (Proposed)				21	IVR BB /Stable Outlook /IVR A4