August 20, 2020

NSPR Constructions (India) Pvt. Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	2.50	9.50	[ICRA]BBB+(Stable); Reaffirmed
Long Term / Short Term - Non Fund Based	92.50	110.50	[ICRA]BBB+(Stable)/[ICRA]A2; Reaffirmed
Long term / Short term - unallocated	40.00	15.00	[ICRA]BBB+(Stable)/[ICRA]A2; Reaffirmed
Total	**135.00**	**135.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation derives comfort from NSPR Constructions (India) Pvt. Ltd's (NSPR) established track record in executing road construction works and comfortable liquidity position on the back of low working capital intensity and upstreaming of surplus generated from its build operate transfer (BOT) annuity SPVs. The inter corporate deposits (ICDs) received from its SPVs increased to Rs. 52.19 crore as on March 31, 2020 from Rs. 33.64 crore as on March 31, 2019. Further, the SPVs are to receive Rs. 153.34 crore as annuity during the next four years and the surplus generated above the repayment obligations of Rs. 22.82 crore is expected to support the company's liquidity position in the medium term. The ratings consider its comfortable financial profile with low leverage, strong coverage metrics and low counterparty credit risks, as the clients mainly comprise Government departments.

The ratings are, however, constrained by its moderate order book position of Rs. 413.03 crore as on March 31, 2020 providing limited medium-term revenue visibility. NSPR's ability to secure new projects and improve its order book position remains a key rating monitorable in the near term. The ratings factor in its moderate scale of operations with an operating income (OI) of Rs. 279.07 crore in FY2020, high project concentration risk with top five projects accounting for ~92% of the order book as on March 31, 2020. It faces high geographical concentration risk with most of its orders located in Andhra Pradesh and Chhattisgarh. The ratings are further constrained by its moderate operating profitability margins at 7.30% in FY2020 owing to 47% of the project execution being sub-contracted and intense competition in the construction industry due to tender-based bidding. ICRA notes the high sectoral concentration risk as the orders mainly pertain to road construction and development.

Further, ICRA takes note of the potential impact of the Covid-19 pandemic on the company's business in the near term. The nationwide lockdown, imposed to contain the Covid-19 pandemic from March 24, 2020, resulted in moderation in construction activities across India. Post partial relaxation of lockdown, NSPR has resumed construction activities at its sites. Nevertheless, timely scale up of operations and steady progress across the projects, along with timely release of payments, remain the key monitorable.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NSPR will continue to benefit from its established track record in the road construction business and will achieve sustained revenue growth and operating margins on the back of its current order book position and expected addition of new orders.

Key rating drivers and their description

Credit strengths

Established track record in execution of road projects – The company has more than two decades of experience in the execution of road projects. The company had successfully executed five BOT (annuity) road projects in Andhra Pradesh, which were operational for more than six years. Among these five BOTs, the concession period of two were completed in FY2020.

Comfortable financial risk profile – The company's financial risk profile remained healthy, marked by a gearing of 0.62 times as on March 31, 2020, interest coverage ratio of 7.61 times and NCA/Debt of 23.68% in FY2020. Further, with no major capital expenditure in the near term, the leverage and coverage indicators are expected to continue to be comfortable.

Liquidity support from unencumbered surplus generated by SPVs – The company's liquidity position remains comfortable as reflected by moderate utilisation of working capital limits in the past 12 months. Further, it enjoys liquidity support from its subsidiaries, which are operating five BOT annuity road projects, in the form of ICDs. The SPVs generate significant surplus after meeting the operational expenditure and repayment obligations, which are extended as ICDs to the parent. NSPR has received Rs. 52.19 crore as ICDs as on March 31, 2020 compared to Rs. 33.64 crore as on March 31, 2019. Moreover, the release of retention money by the Ministry of Road Transport and Highways with respect to national highway projects will likely support its liquidity in the near term.

Reputed client profile reducing counterparty risk – The company's client profile mainly comprises Government agencies such as the Ministry of Road Transport and Highways, Government of India, Public Works Department, Government of Chhattisgarh, Roads and Buildings Department, under the Government of Andhra Pradesh, etc. This reduces the counterparty credit risk.

Credit challenges

Limited revenue visibility – The company's order book is moderate at Rs. 413.03 crore as on March 31, 2020 (order book to OI ratio of 1.49 times) resulting in limited near-term revenue visibility. The ability to secure new projects and improve its order book position remains a key rating monitorable.

Moderate scale of operations – NSPR's scale of operations continues to be moderate with revenues of Rs. 279.07 crore in FY2020, which increased by 2%. Further, the disruption in construction activities due to the Covid-19 pandemic is likely to pose a challenge in ramp up of project works because of labour unavailability and revised working conditions at the project sites, with the need to maintain social distancing. Given its exposure to Government department projects, the payments may get delayed as social spending could take precedence over infrastructure capex on account of the pandemic, impacting the revenues and working capital position. Therefore, the company's ability to achieve improvement in revenue, while maintaining its liquidity profile, would remain a key rating monitorable.

High project execution, geographical and sectoral concentration risks – The company has moderate project concentration risk with top five projects accounting for ~92% of the total order book as on March 31, 2020. Any delays in execution or receipt of payments can affect its revenues. NSPR faces high geographical concentration risk with most of the orders from Andhra Pradesh and Chhattisgarh as on March 31, 2020. Moreover, it has been involved in executing work orders related to road construction and development leading to high sectoral concentration risk.

Competitive business environment to keep margins under check – The civil construction segment is characterised by intense competition on account of low complexity of work involved, as well as low entry barriers in terms of qualifications required for the tenders floated. This results in a large number of contractors in this segment, leading to intensely competitive bids, putting pressure on margins. Further, the margins remain exposed to volatile raw material prices, although the built-in price variation clause in the contracts mitigates the risk to an extent. The operating margins remained moderate at 7.30% in FY2020, with the company sub-contracting 47% of the work.

Liquidity position: Adequate

NSPR's liquidity position remains **adequate** as evident from the cushion available in its working capital limits and free cash of Rs. 9.59 crore as on August 11, 2020. The average utilisation of fund-based limits stood moderate at 44% between May 2019 and July 2020. Further, it utilised 49% of non-fund based limits as on July 30, 2020 and the unutilised limits would be sufficient to support its future order book addition and execution. Moreover, the company enjoys liquidity support from its subsidiaries, which are operating BOT annuity road projects and generate surplus after meeting the operational expenditure and repayment obligations. The same is extended as ICDs to the parent, NSPR. It had external term loans of Rs. 9.81 crore on its books as on March 31, 2020, of which Rs. 7.03 crore is to be repaid in FY2021. The repayment of term loan is expected to remain comfortable against the estimated cash flows.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if the company demonstrates a healthy improvement in its scale of operations, while improving its profitability and strengthening its liquidity position on a sustained basis.

Negative triggers – Negative pressure on NSPR's ratings could arise if any slowdown in order execution or decrease in profitability margin results in material decline in cash flows. Further, any delay in order addition resulting in limited revenue visibility may result in negative triggers. Additionally, any sizeable debt-funded capex or sizeable investment towards any new BOTs or hybrid annuity model (HAM) projects, which adversely affects its coverage metrics and liquidity profile, would be negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Rating Methodology for Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has used limited consolidation approach, under which only the proposed equity investments/funding commitments to various subsidiaries have been considered.

About the company

Founded in 1990 as a partnership firm, NSPR Constructions is involved in construction of road projects on build-operate transfer (BOT) and engineering procurement construction (EPC) basis. The firm was reconstituted as a private limited company in 2009 and was renamed as NSPR Constructions India Private Limited (NSPR). The company is promoted by Mr. N. Siva Prakash Reddy, who has more than two decades of experience in executing road projects. NSPR has undertaken five BOT (annuity) projects under five special purpose vehicles namely, NSP Variegate PP Road Projects Private Limited, NSP BVSR KP Road Projects Private Limited, NSP Variegate RG Road Projects Private Limited, NSPR KP Road Projects Private Limited and NSPR KP Two Road Projects Private Limited, which have concession agreements with

Andhra Pradesh Road Development Corporation (APRDC). All the road projects stated above are operational. The concession agreement of NSP Variegate PP Road Projects Private Limited and NSP Variegate RG Road Projects Private Limited was completed in FY2020.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	274.78	279.07
PAT (Rs. crore)	9.93	10.06
OPBDIT/OI (%)	7.38	7.30
PAT/OI (%)	3.62	3.60
Total Outside Liabilities/Tangible Net Worth (times)	1.24	1.28
Total Debt/OPBDIT (times)	2.63	3.14
Interest Coverage (times)	6.76	7.61

*Source: Annual report; Company data; *Provisional*

Status of non-cooperation with previous CRA: Not applicable.

Any other information: None

Rating history for past three years

	Current Rating (FY2021)					Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating 20-Aug-2020	Date & Rating in FY2020 9-Apr-2019	Date & Rating in FY2019 3-Apr-2018	Date & Rating in FY2018 20-Jun-2017
1	Fund Based	Long Term	9.50	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
2	Non Fund Based	Long Term/ Short Term	110.50	-	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+
3	Unallocated	Long Term/ Short Term	15.00	-	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments, according to their complexity levels, is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	9.5	[ICRA]BBB+(Stable)
NA	Bank guarantee	NA	NA	NA	110.5	[ICRA]BBB+(Stable)/ [ICRA]A2
NA	Unallocated Limits	NA	NA	NA	15.0	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: NSPR

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NSP Variegate PP Road Projects Private Limited	90%	Limited Consolidation
NSP Variegate RG Road Projects Private Limited	90%	Limited Consolidation
NSP BVSR KP Road Projects Private Limited	90%	Limited Consolidation
NSPR KP Road Projects Private Limited	100%	Limited Consolidation
NSPR KPTwo Road Projects Private Limited	100%	Limited Consolidation

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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