

October 07, 2021

N A Construction 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 | 14.25 | 14.65 | [ICRA]BBB- (Stable); Reaffirmed |
| Short Term – Non-Fund Based | 86.50 | 88.72 | [ICRA]A3; Reaffirmed |
| Long Term/Short Term – Unallocated | 2.62 | 0.00 | - |
| TOTAL | 103.37 | 103.37 | |

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to consider the extensive experience of the promoters of N A Construction Pvt. Ltd. (NA) in the civil construction business, its status as an 'Class-1A' contractor with Municipal Corporation of Greater Mumbai (MCGM), which helps it in meeting technical bid criteria, and its established strong relationships with its customers as well as suppliers. The rating also continues to draw comfort from the company's healthy order book position of ~Rs. 730 crore (i.e., OB/OI ratio of 3.1 times the operating income of FY2021) as on March 31, 2021, providing medium term revenue visibility. In addition, the rating continues to note NA's comfortable capital structure backed by a relatively moderate net worth base and above average debt protection metrics as on March 31, 2021.

The ratings, however, are constrained by the high order book concentration in terms of geography, segment, as well as clients. The ratings also continue to be constrained by the moderate scale of operations. ICRA notes the company's high dependence on creditors to meet its working capital requirement, resulting in moderate debt level but relatively high TOL/TNW at 1.6 times as on March 31, 2021. Company's ability to judiciously manage its working capital cycle remains key, and any slippages in receivable cycle or change in payment term with its suppliers could impact liquidity position of the company. ICRA notes that 41% of the order book as on March 31, 2021 is in nascent stages of execution (less than 15% executed) and 31% of the order book has execution progress of less than 25%. Thus, timely ramp up in execution, especially for slow moving orders, will remain essential to support the company's revenue growth. The ratings are also constrained by the heightened competition in the road sector along with the steep increase in input costs, which could exert pressure on NA's profitability. ICRA notes that there is a built-in price escalation clause in majority of the contracts, which protects the operating margin from raw material price fluctuation risk to some extent.

The Stable outlook on the long-term rating reflects ICRA's expectation that NA will continue to benefit from the extensive experience of its promoters in the civil construction industry and healthy order book position which provides medium term revenue visibility.

Key rating drivers and their description

Credit strengths

Extensive experience of management team in civil construction sector - NA Construction is currently headed by, Mr. Nasirali A. Madraswala and Mrs. Shaheen N. Madraswala, who have an extensive experience of more than 25 years and 10 years, respectively, in the construction and infrastructure industry. Over the last 10 years, the company has successfully executed and handed over more than 200 construction contracts, which includes construction of roads, flyovers and bridges in and

around Mumbai, Maharashtra. Further, backed by a strong operational history of executing projects, the company achieved a Class-1A registration with Government departments, which helps it in meeting the technical qualification criteria during tender bids. Its long tenure existence in the civil construction space has helped it to establish strong relationships with its customers as well as suppliers.

Healthy order book position providing medium term revenue visibility - The company's fresh order inflows over the past three fiscals have remained healthy, with orders worth Rs. 233 crore added in FY2021; however, the pace of inflows declined in FY2021 due to weak flow of Government of Maharashtra tenders and increased competition. The OB/OI ratio remains comfortable at 3.1 times the operating income of FY2021, thereby providing medium term revenue visibility. Timely commencement and execution of these orders is critical in order to sustain revenue visibility going forward. Realisation of bills raised for the work executed in a suitable timeframe also remains necessary for managing working capital intensity in order to maintain the liquidity.

Comfortable capital structure and above average coverage indicators - The company's capital structure has remained comfortable with gearing being 0.3 times and TOL/TNW being 1.6 times in FY2021 supported by favourable supplier terms leading to low dependence on external borrowings. The coverage indicators also remained above average with interest coverage being 8.7 times in FY2021, increasing from 7.7 times in FY2020 backed by lower dependence on external borrowings. Going forward, the credit metrics of the company are expected to remain comfortable benefitting from scale up of operations given the healthy order pipeline.

Credit challenges

High order book concentration – NA's current outstanding order-book is concentrated towards bridges and roads segment forming 75% of the un-executed order-book as of March 31, 2021. All the projects of the company are confined to Maharashtra (87%) and Kerala (13%) which exposes the company to geographical concentration risks. While geographic concentration of projects could support optimal deployment of resources, however, at the same time the impact on the revenues of the company could be severe if the region of operations gets impacted due to unforeseen risks (viz. heavy rains, lockdowns etc.). Furthermore, project and client concentration remain high, with the top-three clients contributing 92% to the total unexecuted order book and the top-10 orders accounting for 81% to the unexecuted order-book as on March 31, 2021.

Moderate scale of operations - Though the company's scale of operations has increased by 21% i.e. from Rs.195.0 crore in FY2020 to Rs.236.2 crore in FY2021, however, the same continues to remain moderate. Given the healthy order book status, the company is estimated to report moderate revenue growth in the medium term. The construction activity at NA's project sites did not get hampered by the second wave of the pandemic as the respective state governments allowed construction activity and the labourers were also housed at the project sites. As a result, NA was able to bill considerable operating income of ~Rs. 160 crore till September 2021 itself. ICRA notes the company's high dependence on creditors to meet its working capital requirement, resulting in moderate debt level but relatively high TOL/TNW at 1.6 times as on March 31, 2021. Company's ability to judiciously manage its working capital cycle remains key, and any slippages in receivable cycle or change in payment term with its suppliers could impact liquidity position of the company.

High execution risks on account of 71% of order book being in early stages of execution (less than 25% executed) -The company is exposed to high execution risk given the 41% of the order book as on March 31, 2021 is in nascent stages of execution (less than 15% executed) and 31% of the order book has execution progress of less than 25%. Timely ramp-up in order execution will be essential to support the company's revenue growth.

Heightened competition in road sector along with steep increase in input costs could exert pressure on NA's profitability - The domestic civil construction industry is fragmented and highly competitive as evident from the moderate bid to success ratios. Garnering adequate number of projects and ensuring their movement remains key to optimal use of resources and ultimately profitability. The competition has further increased because of moderate work complexity in the road sector and the relaxation in the bidding criteria. This coupled with increase in input cost could exert pressure on NA's profitability. ICRA

notes that there is a built-in price escalation clause in majority of the contracts, which protects the operating margin from raw material price fluctuation risk to some extent.

Liquidity position: Adequate

The company has adequate liquidity, with unencumbered cash and bank balance of Rs. 20.0 crore as of March 31, 2021. Further, the company has long-term debt repayments of Rs.1.1 crore in FY2022, which can be comfortably serviced through operating cashflows. Given the negligible drawing power, the company is largely dependent upon the overdraft against fixed deposit available to meet its working capital requirement; which was completely utilized as on March 31, 2021.

Rating sensitivities

Positive Factors – ICRA could upgrade the rating if the company demonstrates a significant growth in its overall scale of operations while maintaining its operating profitability, working capital intensity, and the liquidity profile.

Negative Factors – Negative pressure on NA’s rating could arise if lower-than-anticipated billing or deterioration in operating profitability or elongation of working capital cycle impacts the company’s liquidity or the overall financial profile.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Construction Entities |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | Standalone |

About the company

Incorporated in 1993 Mr. Nasirali Madraswala as proprietorship firm and subsequently converted into a private limited company in 2009, N A Construction Private Limited (NA) undertakes construction of concrete and asphalt roads, resurfacing and widening of Roads, construction of residential buildings, boundary walls, construction of Nallas, storm water drains and utility ducts, maintenance of flyovers and desilting works for Mumbai Metropolitan Region Development Authority (MMRDA), Vasai-Virar City Municipal Corporation(VVCMC), Municipal Corporation of Greater Mumbai(MCGM), Public Works Department (PWD), Kulgoan Badlapur Municipal Corporation (KBMC) and, Smart City Thiruvananthapuram Limited (SCTL). The company also has RMC and asphalt concrete manufacturing plants near Bhiwandi (Thane), wherein manufactured products are used inhouse.

Key financial indicators (audited)

| | FY2020 | FY2021* |
|--|--------|---------|
| Operating Income (Rs. crore) | 195.0 | 236.2 |
| PAT (Rs. crore) | 11.4 | 12.7 |
| OPBDIT/OI (%) | 9.4% | 8.4% |
| PAT/OI (%) | 5.9% | 5.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.7 | 1.6 |
| Total Debt/OPBDIT (times) | 0.3 | 1.2 |
| Interest Coverage (times) | 7.7 | 8.7 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Audit Report, ICRA research; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | Chronology of Rating History for the past 3 years | | | |
|---|----------------|-------------------------|--------------------------|--------------------------------|---|-------------------------------|-------------------------------|-------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | 07-Oct-2021 | 01-Oct-2020 | 27-Dec-2019 | 09-Jul-2018 |
| 1 | Fund Based | Long-term | 14.65 | - | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) |
| 2 | Non-Fund Based | Short-term | 88.72 | - | [ICRA]A3 | [ICRA]A3 | [ICRA]A3 | [ICRA]A3 |
| 3 | Unallocated | Long term/ Short term | 0.00 | - | - | [ICRA]BBB- (Stable)/ [ICRA]A3 | [ICRA]BBB- (Stable)/ [ICRA]A3 | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-----------------------------|----------------------|
| Long Term - Fund Based | Simple |
| Short Term – Non-Fund Based | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

| ISIN No/Banker Name | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---------------------|-----------------|------------------|-------------|----------|--------------------------|----------------------------|
| Yes Bank | Cash Credit | NA | NA | NA | 11.60 | [ICRA]BBB- (Stable) |
| Kotak Bank | Cash Credit | NA | NA | NA | 0.25 | [ICRA]BBB- (Stable) |
| ICICI Bank | Cash Credit | NA | NA | NA | 1.00 | [ICRA]BBB- (Stable) |
| IndusInd Bank | Cash Credit | NA | NA | NA | 1.80 | [ICRA]BBB- (Stable) |
| Yes Bank | Bank Guarantees | NA | NA | NA | 33.22 | [ICRA]A3 |
| ICICI Bank | Bank Guarantees | NA | NA | NA | 30.00 | [ICRA]A3 |
| Kotak Bank | Bank Guarantees | NA | NA | NA | 25.50 | [ICRA]A3 |

Source: Company

Annexure-2: List of entities considered for consolidated analysis : Not Applicable

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Branches



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