

June 20, 2017

NSPR Constructions (India) Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based – Cash Credit	8.50	[ICRA]BBB (Stable); Assigned
Non Fund Based Limits	56.50	[ICRA]BBB (Stable) / [ICRA]A3+; Assigned
Unallocated Limits	Nil (revised from 20.00)	-
Total	65.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B)¹ to the Rs. 8.50 crore² fund-based facilities of NSPR Constructions (India) Private Limited (NSPR) and also assigned the long-term / short-term ratings of [ICRA]BBB/[ICRA]A3+ (pronounced ICRA A three plus) to the Rs. 56.50 crore non fund-based limits of NSPR. The outlook on the long term rating is stable.

Rationale

The assigned ratings positively factor in more than twenty five years of promoters' track record in the construction and maintenance of various road projects; strong growth in revenues from Rs. 107.31 crore in FY2016 to Rs. 210.90 crore in FY2017 owing to higher work order execution and increased order book; and healthy order book position of Rs. 400.65 crore (1.90 times FY2017 revenues) providing medium term revenue visibility. The ratings further take into account the comfortable financial risk profile with gearing of 0.24 times as on March 31, 2017 and interest coverage of 10.82 times, NCA/ Debt at 58% for FY2017; and low counter party credit risk with most of the customers being State government departments. ICRA also notes the support available to NSPR in the form of ICD's (intercorporate deposit) from its subsidiary SPV's which operate annuity based road projects, all of which have been commissioned and are generating surpluses after servicing debt repayment obligations.

The ratings, however, are constrained by the decline in operating profitability to 7.74% in FY2017 from 9.05% in FY2016 due to higher subcontract expenses; high project concentration risk with top-5 projects accounting for 75% of the order book as on February 28, 2017; and high geographic concentration risk with project execution mostly limited to Andhra Pradesh and Chhattisgarh. The ratings are further affected by the intense competition from other players in the construction industry which keeps margins under check; high sectoral concentration as its execution is limited only to road projects and exposure to volatility in raw material prices given the fixed price nature of contracts.

Going forward, the company's ability to increase scale of operations, diversify order book and effectively managing its working capital requirements shall be the key credit rating sensitivities.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers**Credit strengths**

- More than 25 years of promoters' experience in road construction business
- Substantial growth in turnover with revenues increasing to Rs. 211 crore in FY2017 from Rs 107.31 crore in FY2016 due to higher work order execution and increased order book
- Healthy order book of Rs. 400.65 crore as on February 28, 2017 translating into order book/OI (FY2017 revenues) of 1.90 times providing revenue visibility in medium term
- Healthy leverage and robust coverage metrics for FY2017 due to steady increase in accruals and limited debt levels
- Low exposure to counter-party credit risk as most of the customers are State Government departments

Credit weaknesses

- Decline in operating profitability to 7.74% in FY2017 from 9.05% in FY2016 due to higher sub contract expenses
- High project concentration risk with top 5 projects accounting for 75% of the outstanding order book
- Exposure to the volatility in raw material prices, as seen from the past given the fixed price nature of the contracts
- Geographic concentration risk with projects largely being executed in only two states – Andhra Pradesh and Chhattisgarh
- High sectoral concentration of the outstanding order book as the company is only into roads segment

Description of key rating drivers:

NSPR Constructions (India) Private Limited was established as a partnership firm in 1990 by Mr. N. Siva Prakash Reddy who has more than twenty five years of experience in executing road projects. The company had setup 5 SPVs to construct and maintain five road projects on BOT annuity basis in Andhra Pradesh. These projects have been successfully commissioned and have been steadily generating healthy surpluses. Further, the company also undertakes road construction work orders under EPC mode with the company executing most of the projects in Andhra Pradesh and Chhattisgarh. NSPR has significantly ramped up its scale of operations in FY2017 with revenues nearly doubling to ~Rs. 211 crore from Rs. 107 crore in FY2016 due to execution of large sized orders. Moreover, the order book as on February 28, 2017 also remains healthy providing revenue visibility in the medium term. The current order book, though, remains exposed to geographic concentration risk and sectoral concentration risk with project execution limited mostly to Andhra Pradesh and Chhattisgarh states and road construction respectively. The order book also remains concentrated with top five orders accounting for ~75% of the outstanding order book as on February 28, 2017 thus making it vulnerable to revenue volatility in case of a slowdown in the project execution.

The operating profitability dipped to ~7.75% in FY2017 as against 9% in FY2016 with increase in sub-contract expenses. However, the financial profile of the company is strong with low gearing and healthy coverage metrics for FY2017. Further, the liquidity position of the company is comfortable with average working capital limit utilization of 60% in the past 1.5 years.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has also considered the surpluses available in the SPVs for arriving at the ratings.

Links to applicable criteria:**Corporate Credit Rating Methodology**

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 renamed as NSPR Constructions India Private Limited (NSPR). The firm is promoted by Mr. N. Siva Prakash Reddy who has more than 15 years of experience in executing road projects. NSPR has undertaken five build-operate-transfer (BOT) (annuity) projects under five special-purpose vehicles (SPVs) namely: NSP Variegate PP Road Projects Private Limited (NSP-PP), NSP BVSR KP Road Projects Private Limited (NSP-BVSR), NSP Variegate RG Road Projects Private Limited (NSP-RG), NSPR KP Road Projects Private Limited (NSP-KP) and NSPR KP Two Road Projects Private Limited (NSP-KP02) which have concession agreements with Andhra Pradesh Road Development Corporation (APRDC). All the road projects stated above are operational.

As per provisional financials for FY2017, the company reported a net profit of Rs. 9.99 crore on an operating income of Rs. 210.90 crore, as against a net profit of Rs. 6.71 crore on an operating income of Rs. 107.31 crore in the previous year.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				June 2017	Nov 2016	-	-
1	Cash Credit	Long Term	8.50	[ICRA]BBB (Stable)	-	-	-
2	Bank Guarantee	Long term/ Short Term	56.50	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-
4	Unallocated	Long Term/ Short Term	0.00	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Cash Credit	-	-	-	8.50	[ICRA]BBB (Stable)
Bank Guarantee	-	-	-	56.50	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: NSPR

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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