

## N.A. Construction Pvt. Ltd.

July 09, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	14.25	[ICRA]BBB- (Stable); Assigned
Non-fund Based Limits	89.12	[ICRA]A3; Assigned

\*Instrument details in annexure-1

### Rating action

ICRA has assigned the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to Rs. 14.25 crore<sup>1</sup> fund-based limits and the short-term rating of [ICRA]A3 (pronounced ICRA A three) assigned to Rs. 89.12 crore non-fund based bank facilities of N.A. Construction Pvt. Ltd. (NACPL or the company)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The assigned ratings favourably factor in the extensive experience of the NACPL's promoters in the civil construction business, the company's status as a 'A1 class' contractor with MCGM, which helps it in meeting technical criteria, and the company's customer base which comprises entirely government entities which limits the counter-party risk. The ratings also draw comfort from the company's healthy order book position of ~Rs. 398 crore (~3.44 times of FY2018 OI) as on May 31, 2018, providing medium term revenue visibility. The ratings also take into account the company's comfortable capital structure backed by the strong net worth base and adequate debt protection metrics as on March 31, 2018.

The ratings, however, are constrained by the company's moderate scale of operation with volatility in revenues given the project nature of the business and the vulnerability of profitability to adverse movement in raw material prices though it is partially mitigated by price escalation clause. Further, high competitive intensity given the presence of large number of players in the civil construction industry, coupled with competitive bidding process followed by Government departments for awarding contracts, limits the margin flexibility of the company. The ratings are also constrained by the company's high working capital intensive nature of business emanating from slow receivables from Government clients along with high security deposits and retention money to be maintained with clients which results in considerable cash lock-up. ICRA also takes a note of high geographical concentration risk given its presence only in Mumbai and its nearby area.

### Outlook: Stable

ICRA expects NACPL to continue to benefit from the extensive experience of its promoters in the civil construction industry and execution of projects of various Government agencies, which will aid the future growth of the company. The outlook may be revised to Positive if sustained increase in scale of operations, along with uptick in profitability levels, as well as improvement in working capital cycle by reduction in receivable position. Conversely, the outlook may be revised to Negative if cash accrual is lower than expected due to reduction in revenues or margins, deterioration in capital

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

structure or adverse credit terms with customers and suppliers as well as increase in high inventory levels, leading to a stretch in the working capital cycle.

## Key rating drivers

### Credit strengths

**Extensive experience of promoter in the civil construction industry; Class-A1 registration with government departments help in meeting technical qualification criteria during tender bids** – The operations of the company are primarily overseen by the promoter Mr. Nasirali A. Madraswala, with an extensive experience of more than two decades in the construction and infrastructure industry. Strong experience of the promoter in executing civil contracts of various Government and semi-Government bodies has made management comfortable in dealing with Government clients.

**Healthy order book position providing revenue visibility for the near to medium term** – NACPL 's unexecuted order book position stood high at Rs. 398.63 crore as on May 31, 2018 which is 3.44 times the operating income for FY2018. The orderbook consist of orders from various Government and semi-Government organization of Maharashtra and is expected to be completed with two-three years. Apart from the present orderbook, the company is expected to execute orders worth ~Rs. 39.88 crore under three joint ventures (JV) by FY2019.

**Customer portfolio comprise of government entities, which limits counter party risk** – The company has a reputed clientele comprising various Government entities namely MCGM (Municipal Corporation of Greater Mumbai), MMRDA (Mumbai Metropolitan Region Development Authority), TMC (Thane Municipal Corporation), VVCMC (Vasai-Virar City Municipal Corporation), MIDC (Maharashtra Industrial Development Corporation) and few other municipal bodies, which reduces the counter-party risk of the company. Further, the company has been getting repeat orders from these clients.

**Favourable capital structure and satisfactory coverage indicators** – The capital structure of the company remains comfortable backed by lower dependency on external borrowings for execution of the projects. Moderate level of net worth against lower debt levels led to comfortable capital structure as represented by gearing level 0.76 times and 0.50 times as on March 31, 2017 and March 31, 2018 respectively. However, reliance on creditors for funding its working capital requirements has resulted in relatively high TOL/TNW of 2.20 times as March 31, 2018.

### Credit challenges

**Moderate scale of operations with fluctuating top-line** - The operating income (OI) the company witnessed a volatile trend in the range of ~Rs. 116.00 - 233.00 crore over the last five years. This is largely because it is dependent on the number of projects offered by Government departments, successful bidding for the same, timely site handover as well as pace of execution of ongoing projects that are affected by pace of release of funds from Government departments. OI of the company declined by ~41% in FY2016 followed by growth of 49% in FY2017 and again a de-growth of ~44% during FY2018 leading to an OI of Rs. 115.98 crore during FY2018.

**Exposed to price fluctuations in key raw materials, as the sales orders are fixed price based, though presence of price variation clause provides comfort to some extent**- Raw material (RM) consumption cost stands at ~80-90% for total cost of construction. The major raw material required by the company include cement, bitumen, steel, stone aggregate, sand, plasticizer, petrol, diesel and other building materials. Any unfavorable fluctuations in prices of raw material can impact operating margins given the raw material-intensive nature of operations and the 'fixed price' nature of orders. Although the risk is partly mitigated by price escalation clause built into several contracts. However, even in the presence of a price escalation clause the operating margins suffer since the clause does not cover the price fluctuation risk fully as it is generally based on the RBI index and not on the actual variation of the RM prices.

**Elongated receivables and significant requirement of deposits leading to working capital intensive operations** - The company has to provide earnest money deposits (EMD) of ~1% of contract value on bidding for projects. Once the contract is awarded, the firm needs to submit a performance bank guarantee, which is ~5% of the contract-value. Further, the company is also required to submit the additional security deposits if it has submitted quotation which is below 10% of tender value. The latter is released on gradual basis during the execution of the project. In-addition,

Government departments also retain ~5% from every bill raised as retention money which is released within 3-5 years on case to case basis after the Deflect Liability Period (DLP). Due to the same, any delays in project execution or stretch in receivables may lead to a stretched liquidity position and shall limit the capacity to further bid for upcoming projects.

**Operations exposed to geographical concentration risk** – MCGM, TMC, VVCMC, MIDC and few other municipal bodies in Mumbai and its vicinity are the key revenue contributors of the company. Over the last three years, this client have generated ~80-85% of its total revenues. This indicates a significant exposure towards geographical concentration risk for the company.

**Intense competition due to highly fragmented industry structure** – The company faces intense competition from the highly fragmented construction industry which is characterised by a large number of players in the organised as well as the unorganised segments. With tenders mainly awarded on the basis of competitive pricing, quality of work and scale of operations of the bidder, NACPL's profitability stands exposed to intense competition.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

## About the company:

N.A. Construction Pvt. Ltd. is engaged in the execution of civil contracts for various Government and semi-Government bodies in Maharashtra. Its business operations commenced from 1993 through a proprietorship firm, before being converted to private limited company in 2009. Mr. Nasirali A. Madraswala and Mrs. Shaheen N. Madraswala are equal shareholder of the company. Over the years, the company has worked on a diverse range of project such as 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 Government and semi-Government bodies. The company is a registered Class 1A contractor with MCGM.

The company has recorded a net profit of ~Rs. 4.18 crore on an operating income of ~Rs. 115.98 crore as per provisional financials for FY2018, against a net profit of ~Rs. 7.39 crore on an operating income of ~Rs. 205.80 crore for FY2017.

## Key financial indicators

	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	205.80	115.98
PAT (Rs. crore)	7.39	4.18
OPBDIT/ OI (%)	8.36%	10.19%
RoCE (%)	3.59%	3.61%
Total Debt/ TNW (times)	0.76	0.50
Total Debt/ OPBDIT (times)	1.69	1.83
Interest Coverage (times)	3.72	2.98
NWC/ OI (%)	12%	27%

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

**Any other information: None**

**Rating history for last three years:**

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount	Amount	Date	Date &	Date &	Date &	
		Rated (Rs. crore)	Outstanding (Rs. crore)	&Rating July 2018	Rating in FY2018	Rating in FY2017	Rating in FY2016	
1	Fund Based Limits	Long Term	14.25	-	[ICRA]BBB- (Stable)	-	-	-
2	Non-Fund Based Limits	Short Term	89.12	-	[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](http://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
-	Cash Credit	-	-	-	11.60	[ICRA]BBB- (Stable)
-	Overdraft limit	-	-	-	2.65	[ICRA]BBB- (Stable)
-	Bank Guarantee	-	-	-	89.12	[ICRA]A3

Source: N.A. Construction Pvt. Ltd.

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For more information, visit [www.icra.in](http://www.icra.in)

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