

NSPR Constructions (India) Pvt. Ltd

April 09, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	8.50	2.50	Upgraded to [ICRA]BBB+ from [ICRA]BBB; Outlook revised to Stable from Positive
Long Term / Short Term - Non Fund Based	76.50	92.50	Upgraded to [ICRA]BBB+/[ICRA]A2 from [ICRA]BBB/[ICRA]A3+; Outlook revised to Stable from Positive
Long Term / Short Term - Unallocated	50.00	40.00	Upgraded to [ICRA]BBB+/[ICRA]A2 from [ICRA]BBB/[ICRA]A3+; Outlook revised to Stable from Positive
Total	135.00	135.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade favourably factors in the healthy growth in the company's order book to Rs. 1,113.16 crore as on March 18, 2019 (4.92 times of the operating income of FY2018) from Rs. 800 crore as on February 28, 2018, providing revenue visibility in the medium term, along with an expected increase in revenues in FY2020 on the back of improvement in order execution. The ratings also derive comfort from the liquidity support available to NSPR Constructions (India) Pvt. Ltd. (NSPR), arising from healthy surplus generated from its four Build Operate Transfer (BOT) annuity projects, long track record of the promoter in executing work orders related to road construction and 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 the moderate scale of operations with expected revenues of Rs. 260 crore in FY2019, high project concentration risk with top-five projects accounting for 81% of the order book as on March 18, 2019 and high geographical concentration risk with a major part of its orders coming from Andhra Pradesh, Chhattisgarh and West Bengal. Nearly 54% of the order book was received in February and March 2019 and the execution is yet to begin. However, the revenues are expected to increase significantly in FY2020 on the back of healthy order execution in other projects where the work progress is as per the scheduled timeline. The revenue booking beyond FY2020 would be contingent on the progress in the recently received orders. The ratings are further constrained by moderate operating profitability margins (7.09% in FY2018) with around 50% of the project execution sub contracted, intense competition in the construction industry owing to tender-based bidding and high sectoral concentration risk as the orders largely pertain to road construction and development.

Going forward, the ability of the company to improve its operating income (OI) and operating margins while managing its working capital requirements would remain key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's belief that NSPR's revenues would improve in the medium term on the back of higher order book along with improved execution. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if there is any delay in order execution, or higher than expected debt-funded capex, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Over two decades of experience of promoters in the execution of road projects: The promoter has more than two decades of experience in the road sector. The promoter is also supported by a team of engineers, project managers, supervisors etc. to handle work execution at various locations. The company successfully executed five BOT (annuity) road projects in Andhra Pradesh which are operational for the past five to eight years. Among these, four BOTs are generating significant surplus after meeting the operational expenditure and repayment obligations.

Healthy order book size provides revenue visibility in the medium term: The order book of the company has increased to Rs. 1,113.16 crore as on March 18, 2019 (Rs. 4.92 times FY2018 revenues) from Rs. 800 crore (3.81 times FY2017 revenues) as on February 28, 2018. The company received four large work orders aggregating to Rs. 599 crore in FY2019. The revenues are expected to increase significantly in the medium term on account of higher order book and improved execution.

Comfortable financial profile: The financial risk profile of the company remains healthy, marked by a gearing of 0.44 times as on March 31, 2018, interest coverage ratio of 5.91 times and NCA/Debt of 28% for FY2018. Further, with capital expenditure of Rs. 8-12 crore per annum over the next two years towards purchase of vehicles and machinery, the leverage and coverage indicators are expected to deteriorate, though the same would continue to be comfortable.

Liquidity support from unencumbered surplus generated by the SPVs: The company's liquidity position remains comfortable as reflected by moderate utilisation of working capital limits in the past 12 months. Further, the company gets liquidity support from its subsidiaries, which are operating five BOT annuity road projects. Four SPVs generate significant surplus after meeting the operational expenditure and repayment obligations, which are extended as Inter Corporate Deposits (ICDs) to the parent. NSPR has received Rs. 17.52 crore as ICDs as on March 31, 2018 while the SPVs are expected to generate surplus of over Rs. 13 crore over the next two years.

Credit challenges

Moderate scale of operations: The scale of operations continues to be moderate at Rs. 226.00 crore in FY2018 despite improving from Rs. 209.61 crore in FY2016 owing to improved order book and execution. The revenues are expected to increase significantly in the medium term on account of higher order book and execution over the medium term.

Moderate operating profitability margins: The operating margins improved to 7.09% in FY2018 from 5.35% in FY2017 on account of decrease in subcontract and hire expenses. However, it continues to be moderate with the company subcontracting 53% of the work in FY2018. The company purchased machinery and vehicles of Rs. 12.38 crore to support the project execution which also improved the operating profits in FY2018. Further, with capital expenditure of Rs. 11.04 crore towards purchase of vehicles and machinery in 11M FY2019, the operating margins are expected to improve further in the medium term. However, the road construction industry is characterised by the presence of numerous players and tenders are awarded in competitive bidding to the lowest bidder, which keeps margins under check.

Moderate project execution risk: As execution of nearly 54% of the orders as on March 18, 2019 is yet to begin, the company faces moderate execution risk and the revenues remain exposed to delays in approvals from the department, land acquisition issues etc. However, the order execution progress of the other projects is as per scheduled timelines. Further, the order book is highly concentrated, with top five work orders accounting for 81% of the order book. This increases the risk of revenue booking in case of any delay in order execution or payments from the department.

High geographical and sectoral concentration: The company faces high geographical concentration risk with more than 62% of the orders coming from Andhra Pradesh and Chhattisgarh. The company, since inception, has been involved in executing work orders related to road construction and development. Hence the sectoral concentration risk is also high.

Liquidity position

NSPR's liquidity position remains moderate as evident from 45% average utilisation of fund-based limits between January 2018 and February 2019. The construction business involves high usage of non-fund based limits, resulting in significant amount of encumbered cash as margin money, which stood at Rs. 14.90 crore, apart from free cash and bank balance of Rs. 0.35 crore as on March 31, 2018. With 69% of non-fund based limits utilised as on February 28, 2019, the unutilised limits would be sufficient to support future order book addition and execution. Further, the company gets liquidity support from its subsidiaries which are operating five BOT annuity road projects. Four SPVs generate significant surplus after meeting the operational expenditure and repayment obligations, which are extended as ICDs to the parent, NSPR. The ICDs as on March 31, 2018 stood at Rs. 17.52 crore.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
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.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	209.61	226.00
PAT (Rs. crore)	6.32	8.77
OPBDIT/OI (%)	5.35%	7.09%
RoCE (%)	12.32%	14.69
Total Debt/TNW (times)	0.29	0.44
Total Debt/OPBDIT (times)	1.92	2.26
Interest Coverage (times)	6.30	5.91

Status of non-cooperation with previous CRA: CARE Ratings in its rationale dated April 1, 2019 has moved its ratings CARE BBB(Stable)/A3+ to Issuer Not Cooperating category on the bank facilities of NSPR. The rating has been moved to non-cooperating category in the absence of adequate information from the company to arrive at a fair rating.

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating April 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					Apr 2018	Jun 2017	Nov 2016
1 Fund Based	Long Term	2.50	-	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	-
2 Non Fund Based	Long Term/ Short Term	92.50	-	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-
3 Unallocated	Long Term/ Short Term	40.00	-	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	-	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	2.50	[ICRA]BBB+(Stable)
-	Bank Guarantee	-	-	-	92.50*	[ICRA]BBB+(Stable)/ [ICRA]A2
-	Unallocated limits	-	-	-	40.00	[ICRA]BBB+(Stable)/ [ICRA]A2

*includes up to Rs. 1 crore cash credit limit interchangeable with Bank Guarantee;

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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