

## Press Release

Nanitha Constructions

31 October, 2017



### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 20.00 (enhanced from Rs. 12.50 crore)
<b>Long Term Rating</b>	SMERA BB+/Stable (Reaffirmed)
<b>Short Term Rating</b>	SMERA A4+ (Reaffirmed)

\*Refer Annexure for details

### Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB+**' (read as SMERA double B plus) and the short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 12.50 crore bank facilities of Nanitha Constructions (NC). Further, SMERA has assigned long term rating '**SMERA BB+**' (read as SMERA double B plus) and '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 7.50 crore bank facility of Nanitha Constructions (NC). The outlook is '**Stable**'.

NC is a partnership firm established in 2007 by Mr. L. Narsinga Rao and family. The firm undertakes civil construction projects (construction of roads, bridges, buildings, drainage among others) in Telangana and Andhra Pradesh for government organizations.

### List of key rating drivers and their detailed description

#### Strengths:

##### Experienced promoter

Nanitha Constructions was established by Mr. L. Narsinga Rao and family. The day-to-day operations are managed by Mr. L. Narsinga Rao who possesses around three decades of experience in the civil construction industry.

##### Comfortable financial risk profile

The financial risk profile is comfortable marked by tangible networth of Rs. 15.78 crore as on 31 March, 2017 (Provisional) compared to Rs. 9.65 crore in the previous year. The gearing stood at 0.28 times as on 31 March, 2017 (Provisional) compared to 0.36 times in the previous year. The interest coverage ratio stood at 3.17 times (Provisional) for FY2017 as against 7.73 times in FY2016. The total outside liabilities to tangible networth stood at 1.22 times as on 31 March, 2017 (Provisional) and 1.44 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 1.68 times as on 31 March, 2017(Provisional) compared to 1.25 times in the previous year.

##### Comfortable order book position

NC has unexecuted orders worth Rs. 151.47 crore in hand as on 19 July, 2017, expected to be executed over the next 24 months. This provides modest revenue visibility over the medium term. The orders are for irrigation, roads and drain projects at Telangana and Andhra Pradesh (state government projects).

## Effective working capital management

The firm follows prudent working capital management policy. The gross current asset days (GCA) stood at 57 for FY2016 and improved to 60 days for FY2017 (Provisional). Further, the firm maintains credit balance in the overdraft account during the last six months ended 31 March, 2017.

## Weaknesses

### Modest scale of operations

The scale of operations is modest with revenue of Rs. 84.55 crore for FY2016. However, the firm reported revenue of Rs.115.05 crore (Provisional) for FY2017. Further, the operations are mainly tender based which makes the firm vulnerable to order cyclicity.

### Intense competition

NC is exposed to intense competition from organised and unorganised players in the civil construction industry.

### Partnership constitution

The partnership constitution of the firm makes it vulnerable to the risk of capital withdrawal.

**Analytical approach:** SMERA has considered the standalone business and financial risk profile of the firm for arriving at the rating.

## Applicable Criteria

- Infrastructure Entities – <https://www.smera.in/criteria-infra.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

## Outlook: Stable

SMERA believes that the outlook on NC's rated facilities will remain stable over the medium term on account of its promoter's extensive experience in the civil construction industry. The outlook may be revised to 'Positive' if the company registers significant growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

## About the Rated Entity –Key Financials

In FY2016-17 (provisional), NC reported net profit of Rs. 5.98 crore on operating income of Rs. 115.05 crore, compared to net profit of Rs.3.58 crore on operating income of Rs. 84.55 crore in the previous year. The tangible networth stood at Rs. 15.78 crore (Provisional) as on 31 March, 2017 as against Rs. 9.65 crore in the previous year.

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:**

Date	Name of the Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
12 Aug, 2016	Secured Overdraft	Long Term	2.00	SMERA BB/Stable (Assigned)
	Bank Guarantee	Short Term	6.00	SMERA A4+ (Assigned)
	Secured Overdraft (Proposed)	Long Term	0.50	SMERA BB/Stable (Assigned)
	Bank Guarantee (Proposed)	Short Term	4.00	SMERA A4+ (Assigned)
03 October, 2017	Secured Overdraft	Long Term	5.00 (revised from Rs. 2.00 crore)	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
	Bank Guarantee	Short Term	7.50 (revised from Rs. 6.00 crore)	SMERA A4+ (Reaffirmed)

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Overdraft	N.A	N.A	N.A	5.00	SMERA BB+/Stable (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A.	15.00 (revised from Rs. 7.50 Crore)	SMERA A4+ (Reaffirmed)

**Note on complexity levels of the rated instrument:**
<https://www.smerra.in/criteria-complexity-levels.htm>
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## ABOUT SMERA

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