

Press Release

N NAGESWARA RAO AND CO

December 13, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+** (read as SMERA BB plus) and short term rating of '**SMERA A4+** (read as SMERA A four plus) on the Rs. 15.00 crore bank facilities of N NAGESWARA RAO AND CO. The outlook is '**Stable**'.

The Visakhapatnam-based N Nageswara Rao & co. (NNRC) was established by Mr. N Nageswara Rao (Managing Partner) in 1989 and converted to a partnership firm in 2003. The firm undertakes civil contracts for the Andhra government for construction of roads and bridges in coastal Andhra, Godavari, Prakasam and Guntur areas. The nature of operations is tender based.

Key Rating Drivers

Strengths

• Experienced management

The firm is led by Mr. N Nageswara Rao, Mr. N. V. Ravi Kumar and Ms. N Roopa and undertakes civil contracts for construction of roads and bridges. The promoters possess more than two decades of experience in the said line of business.

• Moderate working capital operations

The operations are working capital intensive marked by moderate Gross Current Asset days of 144 for FY2017 as against 135 for FY2016. This is on account of increase in inventory days to 79 in FY2017 from 48 in FY2016.

• Healthy order book position

The firm has a healthy order book position marked by current orders in hand of Rs. 73.15 crore. It has booked revenue of Rs. 30.00 crore as on 30 November, 2017.

• Moderate financial risk profile

The financial risk profile is moderate marked by net worth of Rs.9.77 crore as on 31 March, 2017 as against Rs. 8.68 crore a year earlier. The gearing is moderate at 1.08 times as on 31 March, 2017 and 1.21 times as on 31 March, 2015. The ICR stood at 4.09 times for FY2017 as against 4.55 times for FY2016. The DSCR stood at 3.41 times for FY2017 and 3.95 times for FY2016.

• Long association with government agencies

NNRC executes projects mainly for the Andhra Pradesh government. Although, risk associated with delayed payment exists, good liaisoning and extensive experience of the promoter has helped the firm collect payments within 30- 45 days after work certification. The timely execution of projects has helped establish long-standing relations with the client.

Weaknesses

• Small scale of operations

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The scale of operations is small, geographically restricted to the state of Andhra Pradesh - (Coastal Andhra, Godavari, Prakasam & Guntur).

• Competitive and fragmented industry

The firm operates in the civil construction industry marked by intense competition from several mid to big sized players. However, the risk is mitigated to an extent as the management has been in the business for over a decade.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of NNRC

Outlook: Stable

SMERA believes that NNRC will maintain a Stable outlook and continue to benefit over the medium term from the extensive experience of its promoter. The outlook may be revised to 'Positive' in case of substantial increase in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability or stretch in working capital cycle weakening the financial risk profile, particularly liquidity.

About the Rated Entity - Key Financials

For FY2016-17, the firm reported profit after tax (PAT) of Rs.2.48 crore on operating income of Rs.39.30 crore, as compared with PAT of Rs.2.88 crore on operating income of Rs.42.95 crore in FY2015-16. The net worth stood at Rs 9.77 crore as on 31 March, 2017 against Rs.8.68 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Infrastructure Entities - <https://www.smerra.in/criteria-infra.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB+ / Stable

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ABOUT SMERA

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