

Press Release

N Nageswara Rao And Co

March 07, 2019

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs.17.00 Cr. (Enhanced from Rs.15.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from **ACUITE BB+/Stable** (read as **ACUITE double B plus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) from **ACUITE A4+** (read as **ACUITE A four plus**) on the Rs.15.00 crore bank facilities and assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.2.00 Crore for the bank facilities of N Nageswara Rao And Co (NNRC). The outlook is '**Stable**'.

The rating upgrade takes into consideration its established track record of the promoters over three decades in the civil construction industry. Firm revenues are improved with a growth about 22% from FY17 to FY18 and steady improvement in its operating profit margin and it is improved from 10.31% in FY2016 to 11.82% in FY2018. NNRC has moderate order book about Rs.50.00 Crs provides revenue visibility and established relationships with Andhra Pradesh Govt. Liquidity remains adequate with sufficient net cash accruals expected to be generated vis-à-vis nil debt obligations over the medium term. However, the rating is constrained by moderate scale of operations and working capital intensity of operations.

NNRC was established in 1989 as a partnership firm. The firm is a Special Class I civil contractor for executing Government Works of R&B, Panchayat Raj, NH Road works of Andhra Pradesh state. Its registered office is located at Visakhapatnam (Andhra Pradesh). The firm participates in tenders issued by PWD and other Government departments of AP and the contracts awarded are related to CC roads and B.T. Roads, culverts and Bridges. The firm is promoted by Mr. N Nageswara Rao along with his other two family members.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of NNRC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established relationships with Andhra Pradesh Govt**

NNRC is a partnership firm started by Mr. N Nageswara Rao 1989. Promoter, Mr. N Nageswara Rao has been in this line of business for over three decades in civil construction industry. The longstanding presence in the industry, continued execution and timely deliverables have supported in regular orders, though modest. Firm has reported revenue of Rs.50.58 crore in FY2018 as against Rs.39.30 crore in FY17 and it has an unexecuted order book position of Rs.50.00 crore as of December 31, 2018. Acuite believes that Long vintage of operations, experienced management and timely execution of the works are expected to keep the business risk profile moderate over the medium term.

- **Moderate financial profile**

NNRC's financial risk profile is moderate marked by moderate total outside liabilities to total net worth (TOL/TNW), moderate gearing (debt-to-equity) and debt protection metrics. NNRC's TOL/TNW and gearing are moderate at 1.65 and 1.20 times in FY2018, against 1.16 and 1.08 times in FY2017 and modest networth of Rs.10.70 crores as of March 31, 2018. Its operating margins are moderate and improving year-over-year at about 11.82 percent in FY2018 against 10.31 per cent in FY2016. The debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) are healthy at 4.47 times

and 0.27 times in FY18. Acuite believes that in the absence of significant debt-funded capex plans, the financial risk profile continues to be at similar levels over the medium term.

Weaknesses

• Moderate scale of operations

The scale of operations of the firm is moderate within the civil construction industry marked by moderate revenues of Rs.50.58 crore in FY2018 increased from Rs.39.30 crore in FY17 with a growth of 22%. The firm has modest order book of about Rs.50.00 crore, the revenues are expected to be around Rs.60-75 crore over the medium term. Further, civil-construction industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, tender nature of business constrains the business risk profile. However, with unexecuted order book position the revenue profile is expected to improve over the medium term though continues to be modest levels.

• Moderate working capital operations:

NNRCs' operations are moderate as evident from Gross Current Assets (GCA) of 148 days as on March 31, 2018 as against 144 days as on March 31, 2017. Primarily high due to high receivable days (FY18: 114; FY17:110) and its inventory days less than a month for past three years. NNRC's creditors which are high at about 148 days as on March 31, 2018 (FY2017:17 days). Moderate working capital management has led to moderate utilisation of its working capital limits at about 86 percent over the past six months ended January 2019. However, Acuite believes that with the increasing scale of operations, the working capital requirements are expected to increase and reliance on external debt is expected to increase over the medium term.

• Partnership nature of business limits financial flexibility

NNRC's constitution as a partnership firm is exposed to discrete risks including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-à-vis a limited company.

Liquidity Position:

NNRC has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. NNRC generated cash accruals of Rs.3.45 crore during the last year 2017 -18, while its maturing debt obligations were in the range of Rs.1.80 crore in the same period. The cash accrual of NNRC is estimated to remain around Rs.4.00 to 5.00 crore during 2019 -21, while its repayment obligations are estimated to be around Rs.1.50 crore. Modest net worth base and moderate working capital management has led to high utilisation of its bank lines at about 86 percent over six months through January 2019. The current ratio of the NNRC stood at 1.62 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accruals as against moderate repayments over the medium term.

Outlook: Stable

Acuite believes that NNRC will maintain 'Stable' outlook and continue to benefit from the experience of its partners in the civil-construction business. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and capital structure. The outlook may be revised to 'Negative' in case of any stretch in its working capital management or more-than-expected withdrawal of capital by the partners leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	50.58	39.30	42.95
EBITDA	Rs. Cr.	5.98	4.26	4.43
PAT	Rs. Cr.	2.26	2.48	2.88
EBITDA Margin	(%)	11.82	10.85	10.31
PAT Margin	(%)	4.46	6.31	6.72
ROCE	(%)	22.09	17.90	40.38
Total Debt/Tangible Net Worth	Times	1.20	1.08	1.21
PBDIT/Interest	Times	4.77	4.09	4.55
Total Debt/PBDIT	Times	2.13	2.45	2.34
Gross Current Assets (Days)	Days	148	144	135

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
13-Dec-2017	Cash Credit	Long Term	6.00	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Long Term	7.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	2.00	ACUITE BB+ / Stable (Assigned)

*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	7.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Upgraded from ACUITE A4+)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/ Stable (Assigned)

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