Press Release

Narayani Sons India Private Limited

July 05, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.12.50 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and the short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.12.50 Cr bank facilities of Narayani Sons India Private Limited (NSPL). The outlook is **'Stable'**.

The rating on NSPL takes cognizance of company's strong business risk profile marked by long track record, continuous growth in the scale of operations and healthy profitability margins. The rating is also supported by the comfortable financial risk profile of the company characterized by high networth and strong debt protection indicators. These strengths are, however, partially constrained by the working capital intensity in its operations and the regulatory risks in the mining industry.

About the company

Incorporated in 2005, NSPL is an Odisha based company (operating from Kolkata). The company is engaged in excavation, crushing, screening and transportation of iron ore, manganese and coal on a contract basis. In addition, the company also provides logistics services to its customers. Established in 1985 as a proprietorship firm, reconstituted as a partnership firm in 2000, and then as a private limited company, NSPL is promoted by Mr. Dinanath Passary. Currently, the operations are managed by Mr. Passary and his sons, Mr. Vivek Passary and Mr. Ashok Passary, who are also directors in the company. NSPL has established a large fleet of heavy equipment including 500 tipper trucks, 50 excavators, 20 dozers, 30 pay-loaders etc. Majority of the fleet is from reputed OEMs like Volvo, Tata, Eicher, Caterpillar etc.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of NSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long experience of the promoters and reputed clientele**

NSPL was promoted by the Passary family led by the promoter Mr. Dinanath Passary, who has experience of around three decades in contract mining business. Currently, the business is looked after by the second generation directors, Mr. Ashok Passary and Mr. Vivek Passary, who are also supported by a group of capable professionals. Long presence of the directors in the mining industry has enabled NSPL to develop strong understanding of industry dynamics and bag repeat orders from established customers such as Tata Steel Limited (TSL), Steel Authority of India Ltd. (SAIL), JSW Ltd. (JSW), Essel Mining and Industries Ltd (EMIL), Odisha Mining Corporation Limited (OMCL) etc. Acuité believes the rich experience of the promoters and healthy relations with customers will continue to support the business going forward.

- **Healthy scale of operation coupled with significant improvement in profit margin**

The company's top line is on a steady increase with a CAGR of 30.42 per cent from FY18-20. The company has achieved revenues of Rs.563.32 Cr in FY2020 as compared to revenues of Rs.505.51 Cr in FY2019 and Rs.330.96 Cr in FY2018, thereby registering a y-o-y growth of 11.44 per cent in FY2020 and 52.74 per cent in the previous. The growth in revenue is primarily on account of continuous order flow, better order execution and thrust in the iron-ore prices. The company has achieved revenue of Rs.487.12 Cr till March, 2021 (Provisional). NSPL has a strong unexecuted order book position to the tune of about 1400 Cr as on 31st March, 2021 which provides sufficient revenue visibility over the medium term.

The operating margin of the company increased to 21.25 per cent in FY2020 as compared to 11.33 per cent in the previous year. The PAT margins stood at 6.91 per cent in FY2020 as against 0.91 per cent as on FY2019. The sharp increase in margin is due to bagging of high margin orders as well as purchase of a large fleet of owned vehicles which has enabled the company to significantly reduce hire purchase cost and transportation cost. The EBITDA margins have increased further in FY 21 to 23.61 per cent (provisional). The strong profitability margins of the company have translated into healthy RoCE levels of 24.34 per cent in FY2020 as against 10.32 per cent in FY2019. The company chooses a difficult terrain for its orders with fewer bidding proposals available and hence gains better bargaining power.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by high networth, moderate gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.166.68 Cr as on 31st March, 2020 from Rs.101.89 Cr as on 31st March, 2019. Acuité has treated unsecured loans of Rs.38.54 Cr as quasi equity as the management has undertaken to maintain this amount in the business over the medium term. Gearing of the company stood at 1.02 times as on 31st March, 2020 as compared to 0.86 times as on 31st March, 2019. The gearing levels have increased in FY20 due to debt funded capex to shore up the asset base for new orders to be executed. The debt of Rs.169.35 Cr comprises of Long term facilities from bank of Rs.102.13 Cr, current portion of long term debt repayment of Rs.65.60 Cr and short term debt of Rs.1.61 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.12 times as on 31st March, 2020 as against 2.13 times as on 31st March, 2019. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 7.87 times and Debt Service coverage ratio at 2.08 times as on 31st March, 2020. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.60 times as on 31st March, 2020. Acuité believes that the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans in the medium term.

Weakness

- **Working capital intensity and capital intensive nature of operations**

The working capital intensive nature of operations is marked by Gross Current Assets (GCA) of 135 days in FY2020 as compared to 125 days in FY2019. The high GCA days are on account of high amount of retention money deposits and advance to suppliers, employees and related parties. The debtor period is moderate at 71 days as on March 31, 2020 as compared to 57 days as on March 31, 2019. Inventory period stood comfortable at 4 days as on 31st March, 2020 as compared to 5 days as on 31st March, 2019. Going forward, Acuité believes that the working capital management of the company will remain at similar levels as evident from the moderate collection mechanism and low inventory levels over the medium term.

The company's operation is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc.) for replacement purpose. The company has incurred a significant amount of capex during last couple of fiscals to increase its fleet size for smoother execution of orders in hand, to reduce the quantum of hire purchase cost and also for replacing older equipment.

- **Regulatory risk in the mining sector**

The mining environment in India has been highly uncertain with respect to issues like illegal mining and risk attached to sudden changes in government policies. Hence, any major regulatory changes may impact the business operations of the company. However, as majority of the contracts for NSPL is from Public Sector Undertakings (PSUs) such as South Eastern Coalfields Ltd (SECL), Steel Authority of India (SAIL) etc., the risk is moderated to a certain extent.

Rating Sensitivity

- Sustainability in their growth in scale of operations while maintaining profitability margin
- Elongation in the working capital cycle
- Deterioration in capital structure

Material Covenant

None

Liquidity Profile: Strong

The company's liquidity position is strong marked by net cash accruals of Rs.100.90 Cr in FY2020 as against a long term debt repayment of Rs.40.24 Cr over the same period. The fund based limit remained utilized at 48 per cent over ten months ended April, 2021. The cash and bank balances of the company stood at Rs.12.85 Cr in FY2020 as compared to Rs.4.29 Cr in FY2019. The company did not avail any Covid loan or loan moratorium. The current ratio stood moderate at 1.04 times as on 31st March, 2020 as compared to 1.05 times as on 31st March, 2019. The company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 135 days in FY2020 as compared to 125 days in FY2019. Acuité believes that going forward the company will maintain strong liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on NSPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its capital structure or expanding its networth base. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	563.32	505.51
PAT	Rs. Cr.	38.92	4.59
PAT Margin	(%)	6.91	0.91
Total Debt/Tangible Net Worth	Times	1.02	0.86
PBDIT/Interest	Times	7.87	7.05

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Entities in Service Sector - https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.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	10.00	ACUITE BBB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A2 (Assigned)

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About Acuité Ratings & Research:
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