

Press Release
N R CONSTRUCTIONS
February 07, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.50	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	30.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	37.50	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.37.50 Cr. bank facilities of N R Constructions (NRC). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned factors in the experience of the partners in civil contracting works and long track record of operations of more than two decades. Further, it factors in the healthy order book as on Sep 2023 of Rs.346.50 Cr which is 4.11 times of FY23 revenue, also has recorded a healthy growth in revenue to Rs.84 Cr in FY23 as against Rs.44.66 Cr in FY22. The company has already recorded the revenue of Rs.158.82 Cr until December'2023. Further, rating also considered moderate financial risk profile with comfortable debt protection metrics with DSCR of 5.33 times as on March 31st 2023, low leverage ratio at 0.38 times as on March 31st 2023 and comfortable profitability margins ranging between 7.66 - 7.95 percent during previous two years. However, rating is constrained by working capital intensive nature of operations, excess dependency on single order of 'HARGHARJAL' leading to customer concentration risk, risk of capital withdrawal associated with partnership firms and volatility in raw material prices and tender based nature of operations impacting profitability.

About the Company

Based in Hyderabad, NR Construction is a partnership firm incorporated in 1998. The company is engaged in the civil construction business. The partners of the companies are Mr. Alluri Narayana Raju, Mr. Alluri Ramanuja Raju, Mr. Alluri Krishnam Raju, Mr. Alluri Madhava Varma, Mr. Alluri Srinivasa Raju, Mr. Alluri Srirama Varma and Mr. Alluri Ravi Varma.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced partners and established track record of operations

N R Constructions (NRC) is a partnership firm incorporated in 1998 by Mr. Narayana Raju along with his brothers. All the partners of the firm belong to same family. NRC executes civil contracts involving irrigation works, building, roads, bridges and other civil works primarily from government clientele. NRC management is supported by team of professionals with an adequate experience in executing civil contract works. The experience of the partners has helped the firm in maintain long term relationship with its stake holders. NRC majorly executes civil contracting works in Telangana, Andhra Pradesh and Karnataka. In 2022 firm has received order for execution of drinking water supply scheme in Uttar Pradesh (Sub –contract from NCC Ltd) from

Government of India, thus diversifying its geographical concentration risk. Acuite believes that NRC shall continue to benefit from its experienced partners and its long track record of operations over the medium term.

Healthy Order Book

NRC has a healthy order book of Rs. 346.50 Cr as on September 2023, which is 4.11 times of its revenue in FY2023. Order book majorly increased on the account of new order received as sub contract from NCC Ltd for executing 'HARGHARJAL' project in Uttar Pradesh. Other order of the firm includes irrigation projects in Andhra Pradesh, road projects in Karnataka and civil construction contracts in Telangana.

Acuite believes that scale of operations of the firm may improve over the near to medium term backed by healthy order book.

Moderate financial risk profile

The financial risk profile of the firm is moderate marked by moderate net worth, low leverage ratio and comfortable debt protection metrics. The firm net worth improved to Rs. 20.86 Cr as on March 31st 2023 as against Rs.17.99 Cr as on March 31st 2022 and Rs.12.15 Cr as on March 31st 2021. Fluctuation in net worth is attributable to accretion and withdrawal of profits by the partners. The total debt of Rs.7.94 Cr as on March 31st 2023 consists of long term debt of Rs.0.49 Cr and short term working capital debt of Rs.7.45 Cr. The gearing of the firm remained low at 0.38 times as on March 31st 2023 as against 0.41 times as on March 31st 2022 and 0.73 times as on March 31st 2021. The total outside liabilities to tangible net worth stood at 4.00 as on March 31st 2023 as against 3.09 times as on March 31st 2022 and Rs.5.00 times as on March 31st 2021. Further, debt protection metrics stood comfortable with both interest coverage ratio and debt service coverage ratios at 5.33 times as on March 31st 2023 as against 8.67 times as on March 31st 2022 and 9.21 times as on March 31st 2021.

Acuite believes that financial risk profile of the firm is likely to remain moderate over medium term in absence of any debt funded capex.

Weaknesses

Working Capital intensive nature of operations

The working capital operations of the firm are intensive as reflected by its high Gross current asset(GCA) days of 405 days in FY2023 as against 520 days in FY22 and 464 days in FY21. GCA days are majorly dominated by inventory days of 202 days in FY23 as against 256 days in FY22 and 224 days in FY2021. The debtor days of the firm stood at 83 days in FY23 as against 74 days in FY22 and 64 days in FY21. In order to support the working capital requirement firm has stretched its creditor days to 188 days in FY23 as against 360 days in FY22 and 389 days in FY21. Further, the average working capital utilisation stood high at 95.27 percent in past 12 months ending December 2023.

Acuite believes that working capital operations of the company may continue to remain intensive over the near to medium term due to high realization cycle and nature of operations of the firm.

Risk of capital withdrawal

NRC'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. Acuité believes that any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Volatility in raw material prices and tender based nature of operations impacting profitability

Most EPC projects undertaken by the firm has a gestation period of 12-36 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. However, majority of orders in hand have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent. NRC operates in irrigation, roadways and drinking water supply segments which are highly competitive with presence of large number small, regional and large players. EPC projects executed by the Firm are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. This puts strain on profitability of the firm where the bidding can get aggressive.

Rating Sensitivities

- Further elongation in working capital cycle leading to stretch in liquidity
- Withdrawal of capital.
- Any geopolitical disturbances impacting the ongoing projects or order book of the firm
- Significant improvement in revenue while maintaining profitability

Liquidity Position: Adequate

NRC's liquidity is adequate marked by comfortable cash accruals. It reported cash accruals of Rs.5.90 Cr in FY2023 as against Rs.3.27 Cr in FY2022. Its accruals are expected to range between Rs.12.5 Cr to Rs.14.5 Cr in FY24-25. Firm doesn't have any major long debt obligations against its cash accruals. The current ratio of the firm stands at 1.28 times and cash and bank balances stood at Rs.1.73 Cr as on March 31, 2023. However, firm's GCA days are high at 405 days this makes firm dependent on bank borrowing for working capital requirement. Average bank limit utilization stood high at 95.27 percent over the last 12 months ending December 2023. Unencumbered Cash and bank balances stood at Rs.1.73 Cr as on March 31, 2023.

Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accrual and no major large debt capex plans over the medium term.

Outlook: Stable

Acuité believes that the outlook of NRC will remain 'Stable' over the medium term on account of the partner's extensive experience and established presence in the infrastructure industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the firm.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	84.00	44.66
PAT	Rs. Cr.	5.60	2.97
PAT Margin	(%)	6.67	6.65
Total Debt/Tangible Net Worth	Times	0.38	0.41
PBDIT/Interest	Times	5.33	8.67

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE A4+ Assigned
Union Bank of India	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.50	ACUITE BB+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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