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N G Projects Limited

December 20, 2023

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	22.00 (Enhanced from Rs.16.00 crore)	IVR BBB+/ Stable (IVR Triple B plus with Stable outlook)	Revised from IVR A-/Stable (A Minus with Stable outlook)	Simple
Short Term Bank Facilities	198.00 Crore (Reduced from Rs.204.00 crore)	IVR A2 (IVR A Two)	Revised from A2+ (A Two Plus)	Simple
Total	220.00 (Rs. Two hundred and twenty crore)			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of N G Projects Limited (NGPL) is majorly driven by rise in NGPL's exposure towards its subsidiaries which are SPVs (Special Purpose Vehicle) to execute HAM projects coupled with project execution risk since both the SPVs are at their nascent stage of operations. However, the ratings continue to derive strength from its experienced promoter with longstanding presence in the industry, reputed clientele coupled with proven project execution capability. NGPL's diversified geographic presence with strong unexecuted order book of Rs.1389.26 crore as on October 01, 2023, which is to be executed in the next two to three years, further supports the ratings. Also, the ratings note stable financial performance of the company with comfortable capital structure and debt coverage indicators in FY2023. The ratings also take into account favourable demand potential for road infrastructure projects in the country. However, these rating strengths remain constrained by tender driven nature of business in highly fragmented & competitive operating scenario, exposure to sectoral concentration risk and susceptibility of operating margin to volatile input prices.

Rating Sensitivities

Upward factors

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in liquidity.
- Sustenance of the capital structure with improvement in debt protection metrics.



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- Steady flow of orders & timely execution of the same on a sustained basis.

Downward Factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile on a sustained basis.
- Moderation in the capital structure with moderation in the overall gearing to over 1x.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Extensive experience of the promoters in civil construction sector

The founder promoter of the company Mr. Narayansingh Gulabsing Rathod, is a first-generation entrepreneur with extensive experience of about 65 years in the civil construction sector. Mr. Harendrasingh Narayansingh Rathod and Mr. Gopalsinh Narayansingh Rathod (sons of Mr. Narayansingh Gulabsing Rathod and Managing Directors of the company) also have an experience of 45 years and 25 years respectively in the construction industry and are actively involved in managing the affairs of the company. The directors are well supported by a team of experienced and qualified professionals.

Proven project execution capability

Over the past years, the entity has successfully completed many projects across Gujarat, Rajasthan, Maharashtra, Goa, Jharkhand, Mizoram and Sikkim and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele indicating lower counter party credit risk

NGPL mainly bids for tenders floated by various government departments/entities majorly in the road construction sector across Gujarat, Rajasthan, Maharashtra, Mizoram, etc. Hence, the counter party credit risk remains relatively low for NGPL, though timely receipt of bill payments from government, semi-government agencies is dependent on their timely receipt of sanctioned funds from higher authorities.

Diversified geographical presence

The current order book of the company spans across various states like Gujarat, Rajasthan, Maharashtra, Mizoram, Himachal Pradesh and Jharkhand thereby generating a geographically diversified revenue profile for the company.

Strong order book position reflecting a healthy near to medium term revenue visibility



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NGPL has unexecuted orders of ~Rs.1389.26 crore as on October 01, 2023, translating into 3.51 time of its FY2023 standalone revenue, thereby providing healthy medium-term revenue visibility. These orders have been received from government departments and spans across states like Rajasthan, Gujarat, Himachal Pradesh, Jharkahnd and Mizoram. Also, the company has secured two major orders worth Rs.1073.80 crore for road construction from NHAI in Himachal Pradesh and Jharkhand under Hybrid-Annuity Model (HAM) which further adds to the healthy order book position of the company. Though the order book is expected to be executed over next 2-3 years, however, timely completion of the same would remain a key monitorable.

Stable financial performance; albeit moderation in TOI in FY2023 and in H1FY2024

Total operating income (TOI) witnessed a y-o-y decrease from Rs.454.11 crore in FY2022 to Rs.396.22 crore in FY2023 due to delay in receipt of required ROW and appointed date for the two major HAM projects in Himachal Pradesh and Jharkhand in which the company had participated in FY2023 fiscal year. The appointed date was expected to be received by December 2022. However, the appointed date was received on April 2023 for HHPL and June 2023 for BHPL. This resulted in loss of one quarter revenue for NGPL. Further, since the company had already qualified for both the HAM projects, the company did not bid aggressively for any other projects resulting in decrease in topline in FY2023 as compared to FY2022. Despite the decrease in combined TOI in FY2023, EBITDA margin increased from 13.66% in FY2022 to 15.91% in FY2023. The increase in EBITDA margin in FY2023 is majorly attributable to stock adjustment. The closing inventory increased substantially from Rs.25.58 crore as on March 31, 2022, to Rs.60.40 crore as on March 31, 2023. This is because NGPL is the EPC contractor in both the SPVs established for execution of the HAM project. NGPL had started the design and camp site establishment work for both the projects in FY2023 fiscal year itself and had incurred Rs.35-40 crore towards the same. However, the same could not be billed to the SPVs in FY2023 since the appointed date was not announced till March 31, 2023. As a result, the same had to be booked in inventory in FY2023 fiscal year. Consequently, PAT margin also increased from 7.16% in FY2022 to 8.14% in FY2023. Gross cash accruals also increased marginally from Rs.49.80 crore in FY2022 to Rs.50.49 crore in FY2023. NGPL achieved a TOI of Rs.161.57 crore during H1FY2024 down from Rs.174.50 crore during H1FY2023 due to delays in execution of



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orders. Nevertheless, the PAT stood at Rs.12.92 crore during H1FY2024 as against a PAT of Rs.12.29 crore during H1FY2023 due to execution of higher margin projects. The ability of the company to increase in top line while sustaining the overall profit margins will be critical from credit perspective, going forward.

Comfortable capital structure coupled and debt coverage indicators in FY2023

The capital structure of the company on combined basis remained comfortable with long term debt equity ratio and overall gearing of 0.11x (0.04x as on March 31, 2022) and 0.25x (0.04x as on March 31, 2022) respectively as on March 31, 2023. The marginal moderation in overall gearing is due to increase in term loan from banks for purchase of construction equipment's and availment of FD backed OD of Rs.30.00 crore. With increase in interest cost, the debt coverage indicators though moderated, yet remained comfortable with ICR of 7.89x (19.23x in FY2022) and total debt to GCA of 1.00x (0.15x as on March 31,2022) as on March 31,2023. Total indebtedness as reflected by TOL/TNW stood comfortable at 0.76x as on March 31, 2023.

Favourable demand potential for road infrastructure projects

India has the one of largest road network across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. NGPL being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weaknesses

Exposure to SPVs coupled with exposure to project execution risk

The current order book of the company majorly comprises two projects for road construction in Himachal Pradesh and Jharkhand worth Rs.1073.80 crore to be executed under Hybrid-Annuity Model (HAM) accounting for ~77% of the order book of the company as on October 01, 2023. These two HAM projects are executed under two SPVs. NGPL has invested ~Rs.5.97 crore in the form of equity infusion of Rs.0.02 crore and unsecured loans of Rs.5.95 crore at end of fiscal 2023 (~3% of its net worth as on March 31, 2023) and is likely to have invested further ~Rs.116.52 crore in its SPVs by March 31, 2024. Moreover, NGPL has provided corporate guarantee to the bank facilities availed by these SPVs and has also



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undertake to provide financial support (fund the initial equity contribution, fund any cost escalation during the construction phase and any shortfall in the operational phase) to its SPVs executing the HAM projects. Further both the HAM projects are at their nascent stage of construction and are therefore exposed to risk of cost overrun or delay in completion. NGPL has completed 15.81% and 6.20% of the total work in HHPL and BHPL respectively till November 30, 2023. However, considering NGPL's track record, these projects may get completed without cost/time overruns. Timely completion of the project along with timely receipt of grant from the authority will be critical from a credit perspective.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the company. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, the presence of an escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

Tender driven nature of business in highly fragmented & competitive operating scenario

NGPL's business is dependent on the company's ability to successfully bid for the tenders. Further, the domestic infrastructure/construction sector is highly fragmented with the presence of many players with varied statures & capabilities. This restricts NGPL's operating and financial flexibility.

Sectoral concentration risk

A major portion of the NGPL's total revenue is derived from road construction projects across various states thereby exposing the company to sectoral concentration risk. The company is exposed to the risk of a reduction in workflow in case of any prolonged down-cycle in the road construction sector. Though the company has ventured into railway infrastructure projects in the last two financial years, yet these form a small percentage of the total revenue mix.

Analytical Approach: Combined



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Infomerics has considered the combined financials of NGPL along with its subsidiaries as the company execute projects through SPV mode by floating subsidiaries for better execution of projects. The business of NGPL and its subsidiaries has high operational and financial linkages. Moreover, NGPL also extends corporate guarantee to its subsidiaries, Hamirpur Highway Private Limited (HHPL) and Bokaro Highway Private Limited (BHPL). The approach was standalone at the time of last rating review which is changed now as the subsidiaries came into existence in FY23 and NGPL has extended corporate guarantees to its subsidiaries.

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Consolidation of companies](#)

[Criteria of assigning rating outlook](#)

[Policy of default recognition](#)

Liquidity: Strong

The liquidity profile of the company is expected to remain strong in the near to medium term with comfortable level of cash accruals which is expected to improve further with increase in scale of operations vis-à-vis its low debt repayment obligation. The capital structure of the company on a combined basis was comfortable with overall gearing ratio of 0.25x as on March 31, 2022, indicating a sufficient gearing headroom. The current ratio stood comfortable at 1.73x as on March 31, 2023. Also, the company has unencumbered cash and cash equivalents of Rs.4.57 crore as on October 31, 2023, which is likely to support its liquidity in the near to medium term. Further, the average utilisation of fund-based limit for the last twelve months stood low at ~5% for the last twelve months ended October 2023 providing sufficient cushion in working capital limits. The average utilisation of non-fund-based limits also remained comfortable at ~58% during the last twelve months ended September 2023.

About the Company

N G Projects Limited (NGPL) was incorporated in 1969 as a proprietorship firm by Gujarat based Late Narayansingh Rathod along with his two sons, Mr. Gopalsinh Rathod and Mr. Harendrasingh Rathod. The proprietorship firm was converted into a private limited company



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in 2003 and is engaged in contract-based construction and renovation of roads and highways for various Government bodies. NGPL is registered a 'AA class' government contractor in Gujarat, Rajasthan, Maharashtra and Jharkhand. Further, the company has presence in the states of Gujarat, Rajasthan, Maharashtra, Goa, Jharkhand, Mizoram, Orissa, Himachal Pradesh and Sikkim. In the last few years, the company also ventured into the business of railway infrastructure in Maharashtra and Rajasthan, however, these form a small percentage (8% approximately in FY2023) of total revenue mix. The company has also been awarded projects for road construction by NHA on Hybrid Annuity Model (HAM) basis in March 2022 for which the company has floated subsidiaries - Hamirpur Highway Private Limited (HHPL) and Bokaro Highway Private Limited (BHPL) as Special purpose vehicles (SPV). The company has received appointed date for both the projects and the concession period is 17 years including construction period of two years. The construction work for both the projects has already commenced and NGPL has completed 15.81% and 6.20% of the total work in HHPL and BHPL respectively till November 30, 2023.

Financials (Combined):

For the year ended* / As On	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	454.11	396.22
EBITDA	62.05	63.04
PAT	32.75	30.98
Total Debt	7.33	48.95
Tangible Net worth	165.01	195.99
EBITDA Margin (%)	13.66	15.91
PAT Margin (%)	7.16	7.71
Overall Gearing Ratio (x)	0.04	0.25

*Classification as per Infomerics' standards

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	454.11	396.22
EBITDA	62.05	60.01
PAT	32.75	32.70
Total Debt	7.33	48.95
Tangible Net worth	165.01	197.71



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EBITDA Margin (%)	13.66	15.15
PAT Margin (%)	7.16	8.14
Overall Gearing Ratio (x)	0.04	0.25

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
					September 29, 2022	-	-
1	Cash Credit	Long Term	22.00 (Enhanced from Rs.16.00 crore)	IVR BBB+/ Stable	IVR A-/ Stable	-	-
2	Bank Guarantee	Short Term	198.00 Crore (Reduced from Rs.204.00 crore)	IVR A2	IVR A2+	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	22.00 (Enhanced from Rs.16.00 crore)	IVR BBB+ / Stable
Bank Guarantee	-	-	-	198.00 Crore (Reduced from Rs.204.00 crore)	IVR A2

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
N G Projects Limited	Full consolidation
Hamirpur Highway Private Limited	Full consolidation
Bokaro Highway Private Limited	Full consolidation

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-NGProjects-dec23.pdf>



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Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

