Niraj Cement Structurals Limited (NCSL)

March 11, 2025

Ratings

Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Proposed Long term Bank Facilities	5.00	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	--	Assigned	simple
Total	**Rs.5.00(Rupees five crore only)**				

Details of Facilities are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned a rating to the bank facilities of NCSL, after factoring in several strengths, including a low-risk business model, a healthy order book that ensures revenue visibility over medium term, and extensive experience of the promoters in the industry. The company also benefits from a comfortable capital structure and strong debt protection metrics. Additionally, a significant increase in the company's equity share capital in FY25 further strengthens its financial position. However, there are certain weaknesses, such as low margins due to the outsourcing and joint venture business model, limited scale of operations due to low bank limits, and a tender-based business model that entails intense competition. Moreover, the company is exposed to geographical concentration risk and its revenues are vulnerable to various external factors.

The ‘Stable’ outlook reflects growing scale of operation and profitability margins backed by strong order book position providing cash flow visibility over FY25-FY27.

Key Rating Sensitivities:

Upward Factors

- Successful adoption of new business model entailing own execution, which translates into increase in scale and improvement in profitability margins, while maintaining coverage metrics at healthy levels.
- Reduction in concentration risks.

- Sustenance of the overall gearing.
- Significant growth in cash accruals along with prudent working capital management.

Downward Factors

- Any deterioration in liquidity profile on a sustained basis.
- Low order inflow or significant delay in execution of projects not attributed to external factors.
- Deterioration in debt protection metrics and overall gearing due to large borrowings without commensurate profitability or cash flows.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Current business model entails low risk

The company largely outsources its work to subcontractors and operates on a low but predictable margin. Cost escalation clauses are included in the contracts, and the earnest money deposit (EMD) to be maintained with clients is usually recovered from the subcontractors. The company provides bank guarantees to clients for securing mobilization advances and releasing retention money. Billing is based on milestones, following certification by the client's engineers. Escrow accounts are established for various contracts, through which client payments are passed on to subcontractors after deducting NCSL's margin. Since the company does not use its own working capital for investments, it does not require significant bank lines and remains virtually debt-free as of both 31 March 2024 and 31 December 2024. The company plans to carry out more proportion of work on its own going forward for which it will have to avail working capital limits. Although debt levels will increase this will be offset by higher EBITDA margins and cash accruals.

Healthy order book reflecting satisfactory revenue visibility

The company has an unexecuted order book of around Rs. 1,546.5 crore as on December 31, 2024, which is about 3.29x of its FY24 (FY stands for the period April 1 to March 31) revenues i.e. Rs. 470.22 crore (same order position is as on date). The orders are expected to be completed within next two to three years, indicating a satisfactory medium term revenue visibility. This order book includes latest orders worth ~ Rs. 140 crores from National Highways Authority of India (NHAI) and National Buildings Construction Corporation (NBCC) received in December 2024.

Extensive experience of the promoters in the industry

NCSL is a civil construction company engaged in the construction of mainly railway infrastructure work, roads, bridges and national highways amongst others. The company started its operations in 1998 and since then has successfully completed many projects in and around Mumbai, Kolkata and Uttarakhand for various government departments. The promoters have over 25 years of experience in the industry. They have established long standing relationships with customers and suppliers which helps company secure repeat orders. Promoters are supported by a team of experienced and qualified professionals.

Comfortable capital structure and healthy debt protection metrics

The financial risk profile of the company is marked by healthy capital structure and debt protection metrics as the company is managing its operations through promoter's contribution and through minimal short-term borrowings. The adjusted tangible net worth of the company deteriorated to Rs. 152.31 crore as on March 31, 2024, as against Rs. 175.81 crore as on March 31, 2023, because of Rs. 33.80 crore withdrawal from general reserves as per the audit report for FY24. The company has provided total Rs. 42.44 crore towards credit impaired financial assets (bad debts of trade receivables) and considering the same credit impaired pertaining to the previous years, the company has withdrawn Rs. 33.80 crore from general reserve.

Total debt of the company had decreased to Rs. 0.15 crore as on March 31, 2024, from Rs 25.93 crore as on March 31, 2023, comprising only working capital borrowings. Accordingly, the adjusted overall gearing had improved to 0.00 times as on March 31, 2024, as against 0.15 times as on March 31, 2023. The total indebtedness of the company reflected by adjusted TOL/TNW also improved to 0.47x as on March 31, 2024, against 0.79x as on March 31, 2023.

Debt protection metrics remained healthy with interest coverage ratio at 61.04x for FY24 (PY: 18.37x).

Strong profitability margins

NCSL reported decrease in total operating income (TOI) from Rs. 605.31 crore in FY23 to Rs. 470.22 crore in FY24. As at the year-end FY23 there was a large quantum of completed work which was uncertified, and hence which could not be billed to clients. The company expects to achieve a topline of over Rs.500cr for FY25 out of which it has achieved 220.40 crore till September 30,2024. The profitability margins of the entity largely depend upon nature of contract executed. EBITDA improved and stood at Rs. 16.41 crore in FY24 as against Rs. 8.82 crore in FY23. The EBITDA margin of the entity increased by 2.03% and stood at 3.49% in FY24 as against 1.46% in FY23. PAT improved from Rs. 4.02 Crore in FY23 to Rs. 10.29 Crore in FY24. PAT margin improved by 1.49% and stood at 2.15% in FY24 as against 0.66% in FY23. The 9MFY25 EBITDA margin of the company was 3.56% and PAT margin was 2.08%. The company plans to execute more orders on its own in future due to which margins are expected to increase but debt levels (working capital) would also increase proportionately.

Significant increase in equity share capital of the company

NCSL raised Rs. 25 crores of equity capital by issuing Rs. 12.50 crore through preferential allotment and another Rs. 12.50 crore via equity share warrants in December 2024. Inclusive of share premium total equity to be raised over 18 months is Rs. 139.53 crores. This leads to a substantial increase in net worth and provides significant financial flexibility for the company. As the company has no borrowings as of December 31,2024 the increase in net worth will allow the company to raise significant debt while still maintaining a low gearing. The funds raised are expected to be used for various purposes like business expansion, debt repayment, or operational needs.

Key Rating Weaknesses

Low margins due to outsourcing / JV business model

The company currently follows two business models- one in the form of projects undertaken in the name of the company where the entire execution is outsourced to subcontractors and the second in which the company takes up projects in joint ventures. The margin in joint ventures is much lower than the margins in projects taken up on individual basis as the company is only lending its name to the JV to meet bid qualification criteria. Due to this business model the margins have been low, at 1.46% in FY23 improving to 3.49% in FY24. The change in margins from year to year depends on proportion of individual and joint venture projects executed in a year. Additionally, the company has executed a few projects on individual basis in the past (Kolkata metro and Uttarakhand Project with the execution being done in-house) and could focus on this strategy in future. The EBITDA margins have traditionally been low for this company in line with the above-mentioned business strategy.

Scale of operations constrained due to low bank limits

The company's scale of operations can be constrained due to the lack of working capital limits. At present the company does not have any bank facility and mobilization advance are also not availed by the NCSL from the clients. It is the responsibility and requirement of subcontractors to arrange for working capital funding. Without access to working capital, the company may face challenges in scaling up its operations, as additional funding would be required to manage ongoing projects and meet the demands of subcontractors. The absence of working capital limits restricts the company's ability to bid for additional projects.

Tender-based nature of operations with intense competition in the industry

The company is mostly getting its orders through tenders floated by various government departments. As the infrastructure industry is highly fragmented due to presence of many organized and unorganized players, tender driven nature of business leads to volatility in revenue and profitability. Further, being in infrastructure segment, the company is exposed to inherent risks associated in this industry like slowdown in new order inflows, risks of delays in execution, delay in payments from government, fluctuating input costs etc. Further since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. NCSL has success rate of around 28 percent while bidding for contracts till date.

Geographical concentration risk

The present order book is geographically skewed towards two states namely Maharashtra and Manipur from various government departments also indicating a geographical concentration risk. However, firm has adequate experience to execute projects in the states which provide comfort. For FY24, ~ 72% of NCSL's revenue was generated from contracts in Maharashtra and Manipur.

Revenues are vulnerable to various extraneous factors

NCSL's various ongoing projects have experienced delays due to several factors, including the authorities' delay in handing over the site and the prolonged process of obtaining various regulatory clearances. Additionally, changes in the scope of the project (for instance in case of Design & Construction of Elevated Corridor from Bharat Diamond Bourse company, BKC to Vakola Junction) further delays its commencement. Furthermore, disruptions to the work have been caused by local unrest and an unstable security situation (as seen in Manipur) as well as floods which has led to cancellation of 2 contracts in Guwahati. Factors such as these result in delays in the projects as well as revenue volatility.

Analytical Approach: Standalone Approach has been used. While the consolidated financials are available, there hasn't been a significant change in the top line and other financial parameters over standalone numbers given the low level of operations in the two subsidiaries.

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning Rating Outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity –Adequate

The current ratio and quick ratio of the company stood at 2.39x and 2.30x respectively as on March 31, 2024. The unencumbered cash and bank balance as on September 30, 2024, is

Rs. 2.06 crore. The gross cash accruals are expected to exceed Rs.30 crore annually for the period of FY25 - FY27. Since there are no debt repayments, the cash flows are expected to strengthen the liquidity position during the the projected period.

About the Company

Niraj Cement Structurals Limited (NCSL) established in 1998 is in the business of speciality engineering construction and infrastructure for past 2 decades. The key clients of the company are National Highways Authority of India (NHAI), PWD departments and other such agencies of government of India. NCSL provides end-to-end solutions for highways, bridges, flyovers, water supply & drainage, irrigation, and other infrastructure work. The company's projects across domains spanning over Transportation, Urban Infrastructure, BRTS Projects, Metros, Segmental Turnkey EPC Projects, Industrial Infrastructure, and Irrigation.

Financials Standalone

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	605.31	470.22
EBITDA	8.82	16.41
PAT	4.02	10.29
Total Debt	25.93	0.15
Tangible Net Worth	175.81	152.30
EBITDA Margin (%)	1.46	3.49
PAT Margin (%)	0.66	2.15
Overall Gearing Ratio (x)	0.15	0.00
Interest Coverage (x)	18.37	61.05

** As per Infomerics Standard*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
Press Release			March 11, 2025				
1.	Proposed Long term Bank Facilities	--	5.00	IVR BBB/ Stable			

Name and Contact Details of the Rating Director

Name: Sudarshan Shreenivas

Tel: (022) 62396023

Email: sudarshan.shreenivas@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Ltd (Infomerics) [Formerly Infomerics Valuation and Rating Pvt. Ltd] 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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Long Term Facility	--	--	--	5.00	IVR BBB/Stable

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-NirajCement-mar25.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable
Annexure 4: List of companies considered for consolidated analysis: 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.