



Press Release

Nucon Aerospace Private Limited [NAPL]

July 02, 2021

Ratings

Sl. No.	Instrument / Facility	Amount (INR Crore)	Current Ratings	Rating Action
1	Long Term Facility – Fund Based – Term Loan	10.90 (Reduced from INR 12.99)	IVR BBB-; Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications)	Reaffirmed; Placed under credit watch with developing implications
2	Long Term Facility – Fund Based – Cash Credit	36.00	IVR BBB-; Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications)	Reaffirmed; Placed under credit watch with developing implications
3	Long/Short Term Fund Based- Bank Guarantee	60.00	IVR BBB-; Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications)&IVR A3; Credit Watch with Developing Implications (IVR A Three; Credit Watch with Developing Implications)	Reaffirmed; Placed under credit watch with developing implications
4	Short Term - Non-Fund Based- Letter of Credit	12.00	IVR A3; Credit Watch with Developing Implications (IVR A Three; Credit Watch with Developing Implications)	Reaffirmed; Placed under credit watch with developing implications
5	Short Term - Non-Fund Based- Forward Contract	12.00	IVR A3; Credit Watch with Developing Implications (IVR A Three; Credit Watch with Developing Implications)	Reaffirmed; Placed under credit watch with developing implications
5	Long Term Facility – Fund Based – Working Capital Term Loan (UGECL)	6.27	IVR BBB-; Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications)	Assigned
6	Long Term Facility – Fund Based – Covid Emergency Line of Credit	2.80	IVR BBB-; Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications)	Assigned
	Total	139.97		



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Details of Facilities are in Annexure1

Detailed Rationale

The rating continues to derive strength from established track record in an industry with high entry barriers, relations with reputed defence sector clients backed by moderate order book, Y-o-Y growth in revenue with healthy EBITDA margin and robust demand. However, the rating strengths are partially offset by modest financial profile and stretched working capital cycle

The rating on watch with developing implications reflects overall headwinds arising out of ongoing COVID-19 pandemic. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward Rating Factor

- Procurement of new orders providing optimum revenue visibility along with a substantial and sustained improvement in the revenue while improving or maintaining profitability leading to improvement in the debt protection metrics.

Downward Rating Factor

- Any decline in the revenue & profitability leading to deterioration of the debt protection metrics.

Key Rating Drivers with detailed description

Established Track record in an industry with high entry barriers

Nucon Aerospace Private Limited (NAPL), promoted by Mr. Hemant Jalan & Mr. Udit Jalan, is a resulting company on account of demerger from Nucon Industries Private Limited (NIPL), who has been in the pneumatic applications industry since 1972. Leveraging on the technical and commercial expertise, NAPL is now known as an established player with proven track record of development of control actuation and pneumatic systems for defense systems. The ability to maintain the product quality standards as per the requirement of



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defense research organization acts as an entry barrier in this kind of business. The directors are supported by a team of experienced and qualified professionals.

Relations with reputed defense sector clients backed by healthy order book:

NAPL is engaged into manufacturing of control actuation systems, high-pressure pneumatic and precision mechanical systems for aerospace and defense industries. NAPL operates in a niche and high entry barrier industry which contains stringent pre-qualification clauses. It is recognized as a qualified vendor which works with top government research organizations, defense sector and big private players like Bharat Dynamics Limited, Defense Research & Development Organization, BrahMos Aerospace and Rafael Advanced Systems (Israel). The revenue visibility remains healthy backed by total unexecuted order book of INR241.61 Crore as on March 31st, 2021, and majority of it is to be executed by FY-23.

Y-o-Y growth in revenue with healthy EBITDA margin:

NAPL's revenues have grown from INR84.17 crore in FY18 to Rs. 103.63 crore in FY19. Though, there is a Y-o-Y decline of 51.75% in FY-20 due to delay in receiving of orders which were at different stages of negotiation. However, NAPL's revenue has bounced back in FY21 provisional to INR83.34 crore. EBITDA margin improved to 23.43% in FY21 (Provisional). Over the years, the company has built a wide healthy business relation with leading defense sector clients from the domestic market and further looks to improve its offshore orders. Attributing to manufacturing of high-value systems and sub-systems which need cutting edge technology, the operating margins (EBITDA.) Infomerics expects revenue will increase going forward on account of Government of India initiatives to give preference to the procurement of defense equipment with at least 30% Indigenous Content (IC) and also due to scheduled execution of order book.

Robust Demand:

Government step to increase FDI cap to 49% in the defense sector is permitted under the automatic route. Foreign investment beyond 49% and upto 100% is permitted through government approval, wherever it is likely to result in access to modern technology and with its 'Make in India' mission may give the much needed thrust required to the lagging



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capabilities in the segment despite being the largest spender. Given the geo-political scenario at the border the demand in the sector is expected to remain robust.

Key Weaknesses

Modest financial profile:

In the view of company's continuous R&D, advanced new facility and increase in export orders the company has been able to improve its overall top line. With modest tangible net worth of Rs. 55.35 crore as on March 31, 2021, the overall gearing stood at 1.10x as on March 31, 2021. The Company's credit metrics remained moderate with the ICR stood at 1.53x in FY21 compared to -0.11x in FY20.

Elongated working capital cycle:

The elongated working capital cycle is inherent in the business, where the contracts are long term in nature, which results in higher inventory. Generally, defense orders require large number of critical tests to be done before execution and it takes 12-24 months to execute these orders depending on the type of systems and sub-systems. Additionally, execution can get delayed in getting client clearances. The Company's overall working capital cycle days thus remains moderately high. However, advance payments from customers' up to 20% can moderate the liquidity stress.

Analytical Approach & Applicable Criteria:

Standalone Approach

Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Modest cash accruals and moderate working capital operations lead to moderate utilization of its limits at about 77.65% for the last twelve months ending May 2021. Company has cash & cash equivalent of INR16.14 Crore (Majorly comprises of FD of INR16.11 Cr) in FY21. Current and Quick ratio stand comfortable at 1.91x and 1.45x in FY21. Gross Cash accrual is comfortable as compared to repayment obligation in FY21 and onwards. However, same will depend on the achievement of projections.



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About the Company

Set up in 2001, Nucon Aerospace Private Limited (NAPL) is engaged into manufacturing of control actuation systems, high-pressure pneumatic and precision mechanical systems for aerospace and defence industries.

Financials: (Standalone) (INR Crore)

For the year ended/ As On*	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	49.58	83.34
EBITDA	-1.10	19.53
PAT	0.52	2.07
Total Debt	53.54	60.46
Tangible Net-worth	49.10	55.35
EBITDA Margin (%)	-2.22	23.43
PAT Margin (%)	0.79	2.46
Overall Gearing Ratio (x)	1.09	1.09

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount Outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (April 03 rd , 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Facility – Fund Based –	Long Term	10.90	IVR BBB-; Credit Watch with Developing	IVR BBB-/ Stable Outlook	--	



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	Term Loan			Implications			
2	Long Term Facility – Fund Based – Cash Credit	Long Term	36.00	IVR BBB-; Credit Watch with Developing Implications	IVR BBB- /Stable Outlook	--	
3	Long/Short Term Fund Based- Bank Guarantee	Long/Short Term	60.00	IVR BBB-; Credit Watch with Developing Implications & IVR A3; Credit Watch with Developing Implications	IVR BBB- /Stable Outlook & IVR A3	--	--
4	Short Term - Non- Fund Based- Letter of Credit	Short Term	12.00	IVR A3; Credit Watch with Developing Implications	IVR A3	--	--
5	Short Term - Non- Fund Based- Forward Contract	Short Term	12.00	IVR A3; Credit Watch with Developing Implications	IVR A3		
6	Long Term Facility – Fund Based – Working Capital Term Loan (UGECL)	Long Term	6.27	IVR BBB-; Credit Watch with Developing Implications	--	--	--
7	Long Term Facility – Fund Based – Covid Emergency Line of Credit	Long Term	2.80	IVR BBB-; Credit Watch with Developing Implications	--	--	--

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Facility – Fund Based – Term Loan	10.90	NA	NA	July-2023	IVR BBB-; Credit Watch with Developing Implications
Long Term Facility – Fund Based – Cash Credit	36.00	NA	NA	--	IVR BBB-; Credit Watch with Developing Implications
Long/Short Term Fund Based- Bank Guarantee	60.00	NA	NA	--	IVR BBB-; Credit Watch with Developing Implications & IVR A3; Credit Watch



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					with Developing Implications
Short Term - Non-Fund Based-Letter of Credit	12.00	NA	NA	--	IVR A3-; Credit Watch with Developing Implications
Short Term - Non-Fund Based-Forward Contract	12.00	NA	NA	--	IVR A3-; Credit Watch with Developing Implications
Long Term Facility – Fund Based – Working Capital Term Loan (UGECL)	6.27	NA	NA	Oct-2024	IVR BBB-; Credit Watch with Developing Implications
Long Term Facility – Fund Based – Covid Emergency Line of Credit	2.80	NA	NA	April-2022	IVR BBB-; Credit Watch with Developing Implications

Annexure 2: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/Lenders-NAPL-02-07-21.pdf>