



## Press Release

### Nucon Aerospace Private Limited [NAPL]

September 29, 2022

#### Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action
Long Term Facility – Fund Based – Term Loan	2.17 (Reduced from INR10.90)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications
Long Term Facility – Fund Based – Cash Credit	36.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications
Short Term – Non- Fund Based- Letter of Credit	12.00	IVR A3 (IVR A Three)	Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications
Long/Short Term - Non- Fund Based- Bank Guarantee	60.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) & IVR A3 (IVR A Three)	Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications
Short Term - Non- Fund based - Forward Contract	12.00	IVR A3 (IVR A Three)	Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications
Long Term Facility – Fund Based – Working Capital Term Loan (UGECL)	9.51 (Increased from 6.27)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications
Long Term Facility – Fund Based – Covid Emergency Line of Credit	0.00 (Previously 2.80)	Withdrawn	Withdrawn*
<b>Total</b>	<b>131.68</b> <b>(Rupees One</b> <b>hundred thirty-one</b> <b>crore and sixty-</b> <b>eight lakhs only)</b>		

\*The facility has been paid in full



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### **Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The rating reaffirmation for the bank facilities 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, elongated working capital cycle and high customer concentration risk.

The removal of rating from “Credit watch with developing implications” and assignment of “Stable” outlook is on account of increase in revenue and significant increase in PAT margin from 0.97% in FY21 to 10.84% in FY22(Prov.). Also, the Company has adequate cash and cash equivalents amounting to Rs.20.32 crore.

#### **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), which 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 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.



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### ***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 INR 131.44 Crore as of September 2022, 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 INR83.27 crore in FY21 to Rs. 116.65 crore in FY22(Prov.). EBITDA margin improved marginally from 21.56% in FY21 to 22.54% in FY22 (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 defence equipment with at least 30% Indigenous Content (IC) and due to scheduled execution of order book.

### ***Robust Demand:***

Government step to increase FDI cap to 49% in the defence 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 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.



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### **Key Weaknesses**

#### ***Modest financial profile; Albeit improving***

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. 66.78 crore as on March 31, 2022 (Prov.), the overall gearing stood at 0.77x as on March 31, 2022 (Prov.). The Company's interest coverage ratio improved from 1.76x in FY21 to 2.70x in FY22(Prov.). The Company's TOL/TNW stands at 2.18x in FY22 (Prov.) as against 1.75x in FY21. Also the debt to equity ratio stands at 1.95x in FY22 (Prov.).

#### ***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, defence 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:**

Standalone Approach

### **Applicable Criteria:**

[Criteria of assigning rating outlook](#)

[Rating methodology for Manufacturing companies](#)

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

[Policy for placing ratings on Credit Watch](#)



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### Liquidity: Adequate

The liquidity of the company remains adequate marked by the sufficient cash accruals as against the long-term debt repayment obligations. The unencumbered cash and cash equivalent was Rs.16.72 crore as on March 31, 2021, and Rs.20.32 crore as on March 31, 2022. Its average maximum fund based working capital utilization for the 12 months ended May 2022 stood around 59.80%. Although its operating cycle elongated from 256 days in FY20 to 200 days in FY21, it has improved to 169 days in FY22 (Provisional). With the capex and repayment obligations likely to be low as against the envisaged cash accruals, the liquidity is expected to remain adequate in the medium term. The current ratio stands at 1.60x in FY22(Prov.)

### 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*	31-03-2021 (Audited)	31-03-2022 (Provisional)
Total Operating Income	83.27	116.65
EBITDA	17.96	26.29
PAT	0.97	10.84
Total Debt	55.77	51.38
Tangible Net-worth	54.26	66.78
EBITDA Margin (%)	21.56	22.54
PAT Margin (%)	1.15	9.12
Overall Gearing Ratio (x)	1.03	0.77

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not Applicable



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**Any other information:** Not Applicable

**Rating History for last three years:**

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount Outstanding (INR Crore)	Rating	Date(s) & Rating assigned in 2021-22 (July 02, 2021)	Date(s) & Rating assigned in 2020-21 (April 03, 2020)	Date(s) & Rating assigned in 2019-20
1.	Long Term Facility – Fund Based – Term Loan	Long Term	2.17	IVR BBB-/ Stable Outlook	IVR BBB-; Credit Watch with Developing Implications	IVR BBB-/ Stable Outlook	--
2	Long Term Facility – Fund Based – Cash Credit	Long Term	36.00	IVR BBB-/ Stable Outlook	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-/ Stable Outlook & IVR A3	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	IVR A3; Credit Watch with Developing Implications	IVR A3	--
5	Short Term - Non-Fund Based- Forward Contract	Short Term	12.00	IVR A3	IVR A3; Credit Watch with Developing Implications	IVR A3	--
6	Long Term Facility – Fund Based – Working Capital Term Loan (UGECL)	Long Term	9.51	IVR BBB-/ Stable Outlook	IVR BBB-; Credit Watch with Developing Implications	--	--





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7	Long Term Facility – Fund Based – Covid Emergency Line of Credit	Long Term	0.00	--	IVR BBB-; Credit Watch with Developing Implications	--	--
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**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](http://www.infomerics.com).

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**About Infomerics:**

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit [www.infomerics.com](http://www.infomerics.com)

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the



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capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### 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	2.17	NA	NA	July-2023	IVR BBB-/ Stable
Long Term Facility – Fund Based – Cash Credit	36.00	NA	NA	--	IVR BBB-/ Stable
Long/Short Term Fund Based- Bank Guarantee	60.00	NA	NA	--	IVR BBB-/Stable & IVR A3/Stable
Short Term - Non-Fund Based- Letter of Credit	12.00	NA	NA	--	IVR A3/Stable
Short Term - Non-Fund Based- Forward Contract	12.00	NA	NA	--	IVR A3/Stable
Long Term Facility – Fund Based – Working Capital Term Loan (UGECL)	9.51	NA	NA	Oct-2024	IVR BBB-/Stable

*\*The facility has been paid in full*

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-Nucon-Aerospace-sep22.pdf>

**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 <https://www.infomerics.com/>.





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