



## Press Release

NS Engineering Company Private Limited

June 09, 2020

### Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	10.00	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Reaffirmed
Short Term Bank Facilities – Bank Guarantee	8.00	IVR A3 (IVR A Three)	Reaffirmed
Short Term Bank Facilities – Letter of Credit	8.00	IVR A3 (IVR A Three)	Reaffirmed
<b>Total</b>	<b>26.00</b>		

Details of Facilities are in Annexure 1

### Detailed Rationale

The ratings assigned to the bank facilities of NS Engineering Company Private Limited (NSECPL) continues to derive comfort from its experienced promoters, established clientele, and comfortable gearing & debt protection parameters. The ratings also notes its healthy order book reflecting satisfactory medium-term revenue visibility. However, these rating strengths continue to remain tampered due to its modest scale of operations with customer concentration risk and high working capital intensity of its business.

### Key Rating Sensitivities:

#### Upward factors

- Significant improvement in scale of operations with continuous inflow of orders and improvement in profitability leading to improvement in cash accruals on a sustained basis
- Sustenance of the capital structure and debt protection metrics
- Improvement in the operating cycle

#### Downward factors

- More than expected moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators
- Moderation in the capital structure with overall gearing more than 1x
- Elongation in the operating cycle impacting the liquidity

### List of Key Rating Drivers with Detailed Description



## Press Release

### **Key Rating Strengths**

#### **Experienced promoters with established track record of operations**

NSECPL started manufacturing of capital goods in the year 1979. The company's operations are managed by Mr. P Nagabhushanam (Managing Director) and Mr. Subba Rao (Director), each of whom have experience of more than three decades in manufacturing of heavy engineering goods. Furthermore, the company is well supported by a team of production engineers, quality engineers and other staff who have vast experience in the industry.

#### **Established clientele**

The company has long term relationship with clients and derives a substantial portion of its revenues from clients having an established presence in the related sector. Further, the company has repeat orders from its clientele testifying its credentials.

#### **Healthy order book reflecting satisfactory medium-term revenue visibility**

The company has a healthy order book aggregating to Rs.60.56 crore as on February 29, 2020. The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium-term revenue visibility.

#### **Satisfactory financial profile marked by comfortable gearing and healthy debt protection metrics**

NSECPL had a comfortable net worth base of Rs.84.20 crore as on March 31, 2019. The capital structure of the company improved and remained comfortable with long term debt equity ratio at 0.04x and overall gearing ratio at 0.16x as on March 31, 2019. Total indebtedness of the company also remained comfortable at 0.25x as on March 31, 2019. The debt protection parameters also remained comfortable with interest coverage ratio of 5.34x and total debt to GCA of 2.38x in FY19. Infomerics expects that the financial risk profile of the company will continue to remain comfortable in the near term.

### **Key Rating Weaknesses**

#### **Modest scale of operation**

NSECPL witnessed a year on year growth of ~37% in its total operating income in FY19 over FY18, yet it continued to remain modest at Rs.61.11 crore. Also, there was a decline in EBITDA margin from 17.52% in FY18 to 13.91% in FY19. The moderation was due to



## Press Release

execution of lower margin orders and compromise in margins to garner more orders. However, despite moderation in the EBITDA margin the PAT margin improved from 2.19% in FY18 to 3.20% in FY19 on the back of comparatively lower interest cost and depreciation provision in FY19. The company is planning to diversify its business in manufacturing products of larger scale in the wind and hydro power sector. During FY20, the management was largely involved in preparation of prototypes for the new products. The initial phase of diversification resulted in dampening of sales during the aforesaid period. Consequently, overall profitability of the company also got impacted during the said period. During 9MFY20, the company has achieved a total operating income of ~Rs.30 crore. Infomerics expects that the scale of business will continue to remain modest with a moderation in FY20.

### **Working capital intensive nature of operations**

The company operates in a working capital-intensive industry. The company places purchase order for consumption of raw material in bulk at a time whereas the delivery of the product to the customer depends on the schedule given by them. Being engaged in capital good manufacturing, the company usually has a high turnaround time resulting in high WIP period. This apart, the realization from its customers ranges between 90-120 days or more depending on the long-term relationship with them.

### **Customer concentration risk**

The revenue from top ten customers comprised about 79% of the total operating income in FY20 (Est.). Although NSECPL's revenue is exposed to customer concentration risk, however on the backdrop of repeat orders from large customers, the concentration risk stands reduced to that extent. Also, the company's order book is skewed towards the power industry which ties the fortunes of the company to the progress in the power sector.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Rating of Structure Debt Transactions (Non securitisation Transactions)

**Liquidity - Adequate**



## Press Release

NSECPL's liquidity profile seems adequate in the short to medium term. Debt protection parameters are comfortable and the average working capital utilisation of the company stood at only ~54% during the past twelve months ended April, 2020 indicating sufficient cushion. Also, the company has sufficient cash and bank balance of Rs.9.76 crore as on April 30, 2020 and is expected to generate sufficient accruals going forward. This along with resourcefulness of the promoters, do not indicate any difficulty for the company in meeting its debt obligations in the near term.

### **About the Company**

Incorporated in 1979, N.S. Engineering Company Private Limited (NSECPL) is engaged in the manufacturing of a wide range of heavy engineering products and components for various industries. The product portfolio of the company comprises stator, rotor structures, coal pulveriser housings with static and dynamic separators, heavy stator frames, end shields, fabrication and machining of components such as stay ring assembly, OGV castings, top cover, diffuser ring, runner body assembly among others. These products are widely utilized by clients across various industries like power (Wind, Thermal and Hydro), cement steel and defence. The company has three units for its manufacturing facilities located in Hyderabad.

### **Financials (Standalone):**

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	44.47	61.11
EBITDA	7.79	8.50
PAT	0.98	1.96
Total Debt	14.63	13.50
Tangible Net worth	82.39	84.20
EBITDA Margin (%)	17.52	13.91
PAT Margin (%)	2.19	3.20
Overall Gearing Ratio (x)	0.18	0.16

\*As per Infomerics' Standard

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years with Infomerics:**

Sr.	Name	of	Current Rating (Year 2020-21)	Rating History for the past 3 years
-----	------	----	-------------------------------	-------------------------------------



## Press Release

No.	Instrument/Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit	Long Term	10.00	IVR BBB-; Stable Outlook	-	IVR BBB-; Stable Outlook (March 14, 2019)	-
2.	Bank Guarantee	Short Term	8.00	IVR A3	-	IVR A3 (March 14, 2019)	-
3.	Letter of Credit	Short Term	8.00	IVR A3	-	IVR A3 (March 14, 2019)	-

**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).

**Name and Contact Details of the Rating Analyst:**

Name: Ms. Harshita Didwania Tel: (033) 46022266 Email: <a href="mailto:hdidwania@infomerics.com">hdidwania@infomerics.com</a>	Name: Mr. Avik Podder Tel: (033) 46022266 Email: <a href="mailto:apodder@infomerics.com">apodder@infomerics.com</a>
---	---

**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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**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



## Press Release

type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the 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	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	10.00	IVR BBB-; Stable Outlook
Bank Guarantee	-	-	-	8.00	IVR A3
Letter of Credit	-	-	-	8.00	IVR A3