Neccon Power and Infra Limited

December 28, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	92.76	IVR BBB- (Credit Watch with Developing Implications) (IVR Triple B Minus under Credit watch with developing implications)	Assigned
Short term bank facilities (including proposed short term facility of Rs.67.24 crore)	442.24	IVR A3 (Credit Watch with Developing Implications) (IVR A Three under Credit watch with developing implications)	Assigned
Total	**535.00 (Rupees five hundred and thirty five crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the above bank facilities of Neccon Power and Infra Limited (NPIL) derives comfort from its long track record of operation in cables and conductor's industry under experienced promoters, strong technical team, reputed clientele with low counter party payment risk, healthy order book indicating strong near to medium term revenue visibility, satisfactory financial profile marked by satisfactory gearing with moderate debt protection metrics and favourable outlook of cable/conductors & wires in India. However, these rating strengths are partially offset by sharp decline in its topline in FY20 (Prov.), susceptibility of its operating margin to fluctuations in input prices, exposure to intense competition and receivable cycle remains elongated leading to high working capital intensity. Infomerics expects the company's operating as well as financial performance to remain under pressure because of the weak macro-economic environment due to the ongoing pandemic in the near term. The demand recovery is likely to be gradual and a key rating monitorable. Further, Brahmaputra Infra Power Pvt Ltd (BIPPL), a wholly owned subsidiary of NPIL was set up as a SPV to execute a 4.7 MW run-of-the river hydroelectric power plant along the

Bordikorai river in Sonitpur, Assam. The total cost of the project was ~Rs 61 Crs, funded through term loan of Rs 25.50 Crs from State Bank of India, Jorhat and Equity of Rs 35.50 Crs. The project started in Q1FY13 and was to be commissioned in FY16. The term loan was backed by the corporate guarantee of NIPL. Assam Power Project Development Company (APPDC), who had awarded the contract to BIPPL, had got all relevant clearances including land clearance from the irrigation department. However, due to a dispute between the forest department and irrigation department over the land ownership, the project was terminated in January 2015. The factors which led to stoppage of work were beyond the control of the company. Out of the total project cost, BIPPL had incurred Rs 58.94 Crs on the project (>90%). However, as per the agreement, the Government is required to refund the entire cost incurred on the project in this event. The company expects that by the end of this December, they will realize the payment from Assam government.

The ratings remain under credit watch with developing implications due to developments in these regards. Further, the financial performance of the company under weak demand scenario is also a key rating monitorable. Infomerics will continue to monitor the developments 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 Factors:

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity
- Improvement in capital structure and debt protection metrics on sustained basis with interest coverage ratio over 2x

Downward Factors:

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by stretch in receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Any unplanned capex and /or deterioration in overall gearing to over 1.0x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long track record of operation in cables and conductor's industry

Incorporated in 1984 by one Khetan family, NPIL has a track record of more than three decades of operations in the cables and conductor's industry. The promoters are vastly experienced in this industry and associated with this industry for more than six decades. Presently, the day to day operations of the company is managed by Mr. Muralidhar Khetan (Chairman), Mr. Jaiprakash Khetan (Managing Director) and Mr. Basant Kumar Khetan each of whom are having experience of around three decades in this business well supported by a team of experienced personnel.

Strong technical team

Electrification projects require expertise for smooth execution of contracts. The company has a strong technical team for execution of its EPC projects with expertise to execute contracts in hilly terrines. The entire technical team (manufacturing and projects) have previously worked with leading players from the same industry.

Reputed Clientele with low counter party payment risk

NPIL caters to renowned EPC project executors like Assam Electricity Grid Corp. Ltd, Assam Power Distribution Co. Ltd, Power Grid Corporation Limited among others. The repeat orders received from its clientele validate its capabilities. Though NPIL has low bargaining power with its customers, its clientele base has sound credit risk profile, which does reduce the counter party payment risk to a certain extent.

Healthy order book indicating strong near to medium term revenue visibility

The company has a healthy order book of ~ Rs.722 crore which is equal to ~3.24 times of its FY20 (provisional) revenue comprising of Rs.573.46 crore from EPC projects and Rs.148.37 crore from manufacturing of cables and conductors. The healthy order book position comprises of repeat orders received especially from state power utilities in eastern India. The strong execution capability of the company will lead to continuous flow of orders which in turn will support the business risk profile of the company over the medium term. Further, being the major player in the North Eastern states provides significant edge over its competitors including giants as evident from the recent tender win for EPC contract amounting Rs.228 crore bidding against giants in the industry. In addition, the company also has bided for projects aggregating to Rs.103 crore which is yet to be finalized. The orders for cables and conductors are expected to be executed over next 6 to 12 months while the EPC orders will be executed over 2 to 3 years, indicating a satisfactory near to medium term revenue visibility.

Stable financial performance albeit huge decline in top line in FY20 (Prov.)

The total operating income of the NPIL witnessed an erratic trend over the last four years FY17-FY20 (Provisional). The same declined significantly by around 51% in FY20 (provisional) to Rs.222.77 crore from Rs.460.70 crore in FY19. The sharp decline in turnover is due to massive protest brewing in different parts of Assam against the NRC and the Citizen Amendment Bill. The protest started country wide but Assam was the worst hit. Leading to curfew and banning internet service in the month of November and December 2019. Under such disturbed socio-political scenario, implementation of the project came to a standstill and the business was impacted. The protest also resulted in delayed delivery lack of availability of manpower for the project site. Despite decline in revenue, NPIL's EBITDA margin increased from 10.85% in FY19 to 11.27% in FY20 (provisional) respectively due to better fixed cost absorption across segments. However, PAT margin declined due to higher interest expense vis-a-vis total operating income. During H1FY21, NPIL achieved sales of Rs.70.80 crore with EBITDA margin of 11.13%. However, this is to mention that the second half of the year is generally the most revenue generating period for the company where it generally earns 60-70% of its full year's revenue. Infomerics expects, the performance of NPIL will improve in the near to medium term backed by its healthy order book and established ability to execute orders.

Satisfactory financial profile marked by satisfactory gearing and moderate debt protection metrics

NPIL has a comfortable capital structure on the back of its satisfactory net worth base of Rs.187.22 crore as on March 31, 2020 (after adjusting for all the investments and loans and advance in group companies). The overall gearing ratio of NPIL remains comfortable and stood at 0.57x on Mar.31, 2020 vis-a-vis 0.49x as on March 31, 2019. Total indebtedness of the NPIL as reflected by the TOL/TNW stood satisfactory at 0.98x as on March 31,2020 (Prov.). However, the debt protection parameters marked by interest coverage ratio remained moderate at 1.34x in FY20 provisional and Total debt to GCA remains high due to lower EBITDA in FY20 at 11.20 years as per FY20 provisional.

Favourable outlook of cable/conductors and wires in India

The cables and conductor's industry is open to significant growth opportunities on account of investments planned in the power and infrastructure sectors by the government. Investment by the central government through schemes such as Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS) and Saubhagya will continue to maintain the demand in the cables and conductors' segment.

Key Rating Weaknesses

Susceptibility of operating margin to fluctuations input prices

NPIL's operating margin is susceptible to volatility in its input prices (mainly aluminium). The company procures raw material from established players like NALCO, Crompton Greaves Limited under MOU along with various traders. Any upward movements in the prices of aluminium, the primary raw material used in the manufacture of cables and conductors can have an adverse effect on the profit margins. Further, the company has escalation clause in most of its contracts.

Exposure to intense competition

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, NPIL also faces competition from the organized sector players.

Receivable cycle remains elongated leading to high working capital intensity

The receivable cycle of NPIL remained high, largely on account of elongated payment cycle from its clients and sizeable retention money in the EPC division. Clients for the manufacturing division receive credit of 60-90 days. However, at times payments are stretched further (mainly by government entities). For the EPC division, 60% of the bill amount is received against supply. About 30% is against erection (which usually takes anywhere between 5-6 months or even more) and the balance 10% is on account of retention money which is released post completion. The high working capital intensity is further reflected from high working capital utilisation of ~90% during the past 12 months ended November, 2020 and its high gross current asset days. However, the company optimises the working capital cycle by availing higher credit period from its creditors.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity of the company is expected to remain adequate on the back of free cash balance of ~Rs.2.17 crore on December 13, 2020 coupled with its adequate cash flow as against almost nil debt obligations. NPIL had generated adequate cash accrual of around Rs.10.56 Cr in FY20 (Prov.) as against its debt repayment obligation of around Rs.0.21 crore. Further, NPIL is also expected to generate steady cash accrual in the range of ~Rs.11.74-25.21 crore over the near medium term against its repayment obligation in the range of~Rs.0.21 crore during FY21-24. Moreover, NPIL has adequate gearing headroom on the back of its strong capital structure. Further, the company is expecting to release retention money aggregating to ~Rs.60 crore by March 31, 2021 which also is expected to boost its liquidity.

About the Company

Neccon Power and Infra Limited (NPIL) was incorporated in the year 1984 and is engaged in manufacturing of transmission line wire and conductors which are used for power transmission and distribution. In the year 2006 the company entered into the turnkey project business which includes the supply, erection, construction and commissioning of sub stations, transmission and distribution lines on turnkey basis. The company was promoted by the Khetan family with the promoter and sons having combined experience of over six decades with complete dedication to the company's business.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional^
Total Operating Income	460.70	222.77
EBITDA	50.00	25.11
PAT	19.11	7.38
Total Debt	91.44	118.20
Tangible Net worth	172.61	187.22
EBITDA Margin (%)	10.85	11.27
PAT Margin (%)	4.13	3.25
Overall Gearing Ratio (x)*	0.49	0.57

Classification as per Infomerics' standards.* **^ CA certified

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the ratings into issuer not cooperating category vide its press release dated December 14,2020 due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		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	89.84	IVR BBB- (Credit Watch with Developing Implications)	-	-	-
2.	Covid Cash Credit	Long Term	2.92	IVR BBB- (Credit Watch with Developing Implications)	-	-	-
3.	Bank Guarantee	Short Term	346.22	IVR A3 (Credit Watch with Developing Implications)	-	-	-
4.	Letter of Credit	Short Term	28.78	IVR A3 (Credit Watch with Developing Implications)	-	-	-
5.	Proposed Bank Guarantee	Short Term	67.24	IVR A3 (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. 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.

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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
Long term fund based bank facilities	-	-	-	92.76	IVR BBB - (Credit Watch with Developing Implications)
Short term non-fund based bank facilities (including proposed short term non fund bank facility of Rs.67.24 crore)	-	-	-	442.24	IVR A3 (Credit Watch with Developing Implications)