

Press Release

Nipani Industries

27 April, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 20.00 Cr
Long Term Rating	SMERA BBB- /Stable (Upgraded)
Short Term Rating	SMERA A3+ (Upgraded)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) from '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) from '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.20.00 crore bank facilities of 'Nipani Industries'. The outlook is '**Stable**'.

The rating upgrade reflects sustained improvement in its revenues, while increase in its order book multi fold giving good revenue visibility over the medium term; also reflects the stable profitability margins and healthy capital structure.

The Jabalpur-based, Nipani Industries (NI) is a partnership firm was established in the year 1996, by Mr. Rajiv Puri and his family members. NI is engaged in pre-fab business mainly specialized in designing, procuring and erection of pre-fabricated steel structures. NI mainly focuses on Government projects for construction of barracks, buildings, wireless transmission towers, watch towers among others besides customer specific structures. NI operates across the geographies of Orissa, Chhattisgarh, Madhya Pradesh, Maharashtra, Andhra Pradesh, Kerala, Assam, Rajasthan, Uttarakhand and Andaman and Nicobar among others.

List of key rating drivers and their detailed description

Strengths:

Long track record of operations and experienced management

NI has been in the pre-fab structure steel business since 1996. The managing partner Mr. Rajiv Puri who holds B.E degree possess more than 2 decades of experience in the said line of business. His vast experience in the industry has helped the firm to maintain established relationship with the customers, and winning the business on negotiation or on tender based system particularly Government business. With the experienced professional team of partners and employees, NI's operations spread across the states thus insulating from the risk of slowdown in investments partially. SMERA believes that NI will continue to benefit from the promoter's experience over the medium term.

Improving in revenues though at moderate levels

Revenues of the firm grew at a compound annual growth rate (CAGR) of 9.90 percent from Rs.28.63 crore in FY2015 to Rs.38.00 crore in FY2018 (Provisional). This is backed by increase in work orders from about Rs.49 crores in December 2016 to about Rs.114 crores as of March 27, 2018. NI's current orders are from Jabalpur Smart City Limited, Madhya Pradesh Power Generation Company Ltd, Orissa State Police Housing & Welfare Co. Ltd, Bhubaneswar among others. SMERA believes that with the moderate unexecuted order book position to be executed over the next 18-24 months and new orders in

SMERA Ratings Limited

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pipeline, annual revenues are expected to be in the range of Rs.50.0 crores to Rs.00360.0 crores over the medium term.

Comfortable financial risk profile

Financial risk profile of the firm is moderate marked by moderate net worth of Rs.15.62 crore as on 31 March, 2017; Debt-Equity ratio is healthy at 0.10 times as on 31 March, 2017 mainly lead by efficient working capital management and low fund based debt levels. Total outside liabilities to total net worth is comfortable at 0.35 times in FY2017 as against 0.66 times in the previous year. Of the total debt of Rs.1.61 crore on 31 March, 2017, long term debt constitute Rs.0.33 crore and short term borrowings of Rs.0.72 crore. Interest Coverage Ratio is healthy at 4.42 times for FY2017, an improvement from 2.87 times in FY2016.

Working capital cycle of the firm is comfortable, which is evident from improvement in gross current assets to 105 days in FY2017 as against 180 days in FY2016. This is mainly on account of improvement in debtors' realization at year end, which improved to 17 days in FY2017 as against 60 days in FY2016. Further, inventory holding period improved to 17 days in FY2017 as against 60 days in FY2016. The working capital limits are moderately utilized at about 80 per cent over last six months through March 2018.

SMERA believes that NI's financial risk profile continues to be comfortable backed by healthy gearing levels, and efficient working capital management and absence of any large-debt-funded capital expenditure programme.

Weaknesses

Highly fragmented industry

PEB industry is dominated by large organized players like Tata Bluescope Steel Limited, Kirby Buildings Systems India Private Limited among others. Further, NI's business is majorly on tender based system which is volatile, besides volatile profitability margins which oscillates around 7-8 per cent against the industry giants whose operating margins are in the range of 11-15 per cent. Also, the business is dependent on the investments and infra spending by the private and government sector.

Volatile raw material prices

NI's major cost component is steel constituting about 50 per cent of the operating income; secondly, NI's orders are on fixed contract basis leaving no space for cost escalation thus impacting the profitability.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Nipani Industries to arrive at the rating.

Outlook - Stable

SMERA believes that NI will maintain stable outlook over the medium term backed by moderate order book and promoter's relations with the clients. The outlook may be revised to 'Positive' in case of significant improvement in its revenue profile, while improving its profitability and maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case of larger-than-expected working capital requirement, or decline in profitability leading to pressure on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	36.80	30.47	28.63
EBITDA	Rs. Cr.	2.92	2.45	1.99
PAT	Rs. Cr.	2.08	1.51	1.79
EBITDA Margin	(%)	7.93	8.04	6.97
PAT Margin	(%)	5.64	4.96	6.26
ROCE	(%)	15.26	13.25	26.60
Total Debt/Tangible Net Worth	Times	0.10	0.46	0.48
PBDIT/Interest	Times	4.42	2.87	4.22
Total Debt/PBDIT	Times	0.49	2.19	2.26
Gross Current Assets (Days)	Days	105	180	194

Applicable Criteria

- Infrastructure entities-<https://www.smera.in/criteria-infra.htm>
- Default Recognition - <https://www.smera.in/criteria-deafault.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07 Feb, 2017	Cash Credit	Long Term	6.00	SMERA BB+ / Stable
	Term Loan	Long Term	0.38	SMERA BB+ / Stable
	Letter of Credit	Short Term	1.50	SMERA A4+
	Bank Guarantee	Short Term	7.00	SMERA A4+
	Proposed Bank Facility	Long Term	5.12	SMERA BB+ / Stable
27 Nov, 2015	Cash Credit	Long Term	6.00	SMERA BB+ / Stable
	Term Loan	Long Term	0.45	SMERA BB+ / Stable
	Bank Guarantee	Short Term	7.00	SMERA A4+
	Letter of Credit	Short Term	1.50	SMERA A4+
	Bank Guarantee	Long Term	5.05	SMERA BB+ / Stable
05 Sep, 2014	Cash Credit	Long Term	3.30	SMERA BB+ / Stable
	Proposed Cash Credit	Long Term	0.80	SMERA BB+ / Stable
	Ad-hoc limits (Fund	Long Term	0.90	SMERA BB+ / Stable

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	Based)			
	Letter of Credit	Short Term	1.00	SMERA A4+
	Proposed Letter of Credit	Short Term	1.00	SMERA A4+
	Bank Guarantee	Short Term	2.15	SMERA A4+
	Proposed Bank Guarantee	Short Term	10.85	SMERA A4+

*Annexure – Details of instruments rated:

me of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.08	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A3+
Proposed	Not Applicable	Not Applicable	Not Applicable	5.42	SMERA BBB- / Stable

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ABOUT SMERA

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