



SMERA RATINGS LIMITED

# National Heavy Engineering Co-operative Limited (NHECL)

## Rating Rationale

**July 24, 2014**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	7.50	SMERA BB-/Stable (Assigned)
Bank Guarantee	58.90	SMERA A4+ (Assigned)
Proposed Long-Term Bank Facilities	13.60	SMERA BB-/Stable (Assigned)

SMERA has assigned ratings of '**SMERA BB-**' (read as **SMERA double B minus**) to the long term bank facilities and '**SMERA A4+**' (read as **SMERA A four plus**) to the short term bank facilities of National Heavy Engineering Co-operative Ltd. (NHECL). The outlook is '**Stable**'. The ratings are constrained by the tender-based nature of the society's business. The ratings are also constrained by the society's exposure to project concentration risk. The ratings factor in risks related to the society's low profitability, which is susceptible to fluctuations in forex rates. However, the ratings are supported by the society's experienced management and moderate financial risk profile.

NHECL, established in 1974, is a Pune-based society engaged in undertaking turnkey projects for setting up sugar plants. NHECL also manufactures machinery and equipment used in sugar plants. The company caters to customers in India and overseas.

NHECL is highly dependent on tender-based contracts, which are subject to competitive bidding. Moreover, NHECL is exposed to project concentration risk arising from high dependence on three projects, which constitute ~88 per cent of the society's current order book. Any delay in implementation of the aforementioned projects will exert significant strain on the society's business risk profile.

NHECL's operating profit margin is low at 5.09 per cent in FY2013-14 (refers to financial year, April 01 to March 31). The society's profitability is exposed to fluctuations in foreign exchange rates.

NHECL benefits from its experienced management. Mr. Muralikrishna, director of NHECL, has around 30 years of experience in the company's line of business. NHECL has set up ~87 sugar plants and ~4,700 centrifugal machines across various countries, including Singapore, Thailand, Uganda and Kenya.

NHECL's moderate financial risk profile is reflected in low gearing (debt-equity ratio) of 0.36 times as on March 31, 2014 and healthy interest coverage ratio of 3.04 times in FY2013-14.

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**Outlook: Stable**

SMERA believes NHECL will maintain a stable business risk profile over the medium term. The society will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the society registers sustained growth in revenues and net cash accruals while achieving efficient working capital management. Conversely, the outlook will be revised to 'Negative' in case of stretch in the society's working capital cycle, or in case of deterioration in the society's financial risk profile on account of delays in implementation of projects.

**About the company**

NHECL, established in 1974, is a Pune-based society engaged in undertaking turnkey projects for setting up sugar plants. NHECL also manufactures machinery and equipment used in sugar plants. The society's product and project portfolio includes boilers, centrifugals, cogeneration power plants, distilleries and beet sugar plants.

For FY2013-14, NHECL reported profit after tax (PAT) of Rs.2.90 crore on revenues of Rs.90.20 crore, as compared with PAT of Rs.5.24 crore on revenues of Rs.81.57 crore for FY2012-13. NHECL's adjusted net worth stood at Rs.22.45 crore as on March 31, 2014, as compared with Rs.19.67 crore a year earlier.

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