



SMERA RATINGS LIMITED

North Eastern Cables Private Limited (NECPL)

Rating Rationale

February 03, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.00	SMERA BB/Stable (Assigned)
Letter of Credit	2.00	SMERA A4+ (Assigned)
Bank Guarantee	12.00	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB**' (read as **SMERA double B**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.16.00 crore bank facilities of North Eastern Cables Private Limited (NECPL). The outlook is '**Stable**'. The ratings draw comfort from the company's experienced management and moderate financial risk profile. However, the ratings are constrained by the company's exposure to customer concentration risk. The ratings are also constrained by the company's small-scale operations and working capital-intensive business. The ratings note that the company's profit margins are susceptible fluctuations in input prices.

NECPL, incorporated in 1988, is an Assam-based company engaged in manufacturing of cables and conductors. NECPL also undertakes construction of power sub-stations for state electricity boards and power distribution companies. NECPL benefits from its experienced management. Mr. Jai Prakash Khetan and Mr. Pradeep Kumar Khetan, directors of NECPL, have around two decades of experience in the electrical industry.

NECPL's moderate financial risk profile is marked by debt-equity ratio of 0.29 times and net worth of Rs.6.91 crore as on March 31, 2014. The company's interest coverage is comfortable at 4.27 times in FY2013-14 (refers to financial year, April 01 to March 31). NECPL primarily uses non-fund based bank limits for its business operations.

NECPL is exposed to customer concentration risk as the company derives ~70 per cent of its revenue from Assam Electricity Board. NECPL has small-scale operations marked by operating income of Rs.28.35 crore in FY2013-14. The company's profit margins are susceptible to fluctuations in input prices. NECPL's operating profit margin declined from 7.82 per cent in FY2011-12 to 4.97 per cent in FY2013-14.

The company's operations are working capital-intensive on account of stretched collection period of 104 days and inventory holding of 69 days in FY2013-14. NECPL's gross current assets increased to 210 days in FY2013-14 from 196 days in FY2012-13. The company's average bank limit utilisation is high at ~88 per cent during April 2014 to November 2014.

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**Rating
Rationale**

Rating sensitivity factors

- Ability to scale up operations while maintaining stable profitability
- Working capital management
- Bank limit utilisation

Outlook: Stable

SMERA believes NECPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues and substantial improvement in profitability while maintaining comfortable capital structure. The outlook may be revised to 'Negative' in case of decline in the company's profit margins, or in case of deterioration in the company's financial risk profile on account of increase in debt-funded working capital requirements.

About the company

NECPL, incorporated in 1988, is an Assam-based company engaged in manufacturing of cables and conductors. NECPL also undertakes construction of power sub-stations for state electricity boards and power distribution companies. NECPL was promoted by Mr. M. D. Khetan, Mr. J. P. Khetan, Mr. B. K. Khetan and Mr. P. K. Khetan. The overall operations of the company are currently managed by Mr. J. P. Khetan and Mr. P. K. Khetan. NECPL mainly caters to Assam Electricity Board. The company also deals with private sector entities.

For FY2013-14, NECPL reported profit after tax of Rs.0.84 crore on operating income of Rs.28.35 crore, as compared with profit after tax of Rs.0.40 crore on operating income of Rs.15.53 crore in the previous year. The company reported net sales of Rs.9.57 crore (provisional) for the period April 2014 to December 2014, as compared with net sales of Rs.16.60 crore for the corresponding period of the previous year. NECPL's net worth stood at Rs.6.91 crore as on March 31, 2014, as compared with Rs.6.06 crore a year earlier.

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