

February 18, 2015

Facilities	Amount (Rs. Crore)	Ratings
Overdraft Against Property	2.60	SMERA B+/Stable (Assigned)
Bank Guarantee	3.50	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B+**' (read as **SMERA single B plus**) and '**SMERA A4**' (read as **SMERA A four**) to the Rs.6.10 crore bank facilities of Nafref Engineers Private Limited (Nafref). The outlook is '**Stable**'. For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of two entities viz. Nafref and National Refrigeration And Air Conditioning Engineering (NRAACE). The consolidation is in view of transfer of NRAACE's business to Nafref. The ratings are constrained by Nafref's small-scale operations and high dependence on government-sponsored projects. The ratings are further constrained by the company's stretched liquidity position. However, the ratings are supported by the company's experienced management and comfortable leverage. The ratings also draw comfort from the company's registration (as a 'Class S' contractor) with Military Engineering Services (MES).

Nafref, incorporated in 2013, is an Amritsar-based company established to take over the running business of NRAACE, which was established in 1983. NRAACE is engaged in providing heating, ventilation and air-conditioning (HVAC) solutions. NRAACE mainly caters to government entities such as Military Engineering Services (MES), Rail Coach Factory, State Government Hospital and Indian Ordnance Factory.

NRAACE is registered as a 'Class S' contractor with Military Engineering Services. This registration enables the firm to bid for tenders up to Rs.15.00 crore. The management plans to apply for 'Class SS' registration of Nafref, which will enable the company to bid for larger contracts (without any upper tendering limit restrictions). Moreover, Nafref has also diversified into providing civil construction services.

Nafref has small-scale operations marked by revenues of Rs.10.72 crore (consolidated) in FY2013-14 (refers to financial year, April 01 to March 31). Nafref's stretched liquidity position is evidenced by high average utilisation (95.66 per cent) of working capital limit during July 2014 to December 2014.

Nafref benefits from its experienced management. Mr. Sital Singh Bal, director of Nafref, has around three decades of experience in the company's line of business. Nafref's gearing (debt-equity ratio) is comfortable at 1.05 times as on March 31, 2014.

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Outlook: Stable

SMERA believes the outlook on Nafref's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations while achieving sustained improvement in profit margins and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile and liquidity position.

About the company

Nafref, incorporated in 2013, is an Amritsar-based company engaged in designing, assembling and installation of HVAC systems. Nafref also undertakes civil construction work.

For FY2013-14, Nafref reported net profit of Rs.0.03 crore on total income of Rs.1.59 crore. NRAACE reported net profit of Rs.0.30 crore on total income of Rs.9.13 in FY2013-14, as compared with net profit of Rs.0.38 crore on total income of Rs.6.52 in FY2012-13. The consolidated revenue of Nafref and NRAACE stood at ~Rs.6.00 crore for the nine months ended December 2014.

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