



SMERA RATINGS LIMITED

Neccon Power & Infra Limited (NPIL)

**Rating
Rationale****March 24, 2015**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	65.00	SMERA BBB/Stable (Assigned)
Term Loan	5.83	SMERA BBB/Stable (Assigned)
Bank Guarantee	313.52	SMERA A3+ (Assigned)
Letter of Credit	27.48	SMERA A3+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BBB**' (read as **SMERA triple B**) and a short-term rating of '**SMERA A3+**' (read as **SMERA A three plus**) to the Rs.411.83 crore bank facilities of Neccon Power & Infra Limited (NPIL). The outlook is '**Stable**'. NPIL is the flagship company of the Neccon Group. For arriving at the ratings, SMERA has combined the business and financial risk profiles of NPIL and its wholly-owned subsidiary named Brahmaputra Infra Power Private Limited (BIPPL). The aforementioned entities are together referred to as the 'Neccon Group'. SMERA notes BIPPL's debt is backed by a corporate guarantee from NPIL. The consolidation is in view of the strong business and financial linkages between the companies. Moreover, the companies are managed by the same promoter group.

The ratings derive comfort from the group's established market position in the conductors and cables industry. The ratings also draw comfort from the group's strong order book position, experienced management and healthy financial risk profile. However, the ratings are constrained by the group's exposure to customer concentration risk. The ratings are also constrained by the group's working capital-intensive business. The ratings factor in risks inherent in the ongoing hydroelectric power project of the group. The ratings also note that the group's profit margins are susceptible to volatility in input prices.

NPIL, incorporated in 1984, is an Assam-based company engaged in manufacturing of conductors and cables. NPIL is the flagship company of the Neccon Group, which is engaged in manufacturing of conductors and cables used in overhead transmission and distribution of electricity. The group also executes engineering, procurement and construction (EPC) contracts for state electricity boards (SEBs) and power distribution companies (PDCs). Neccon Group caters to power utilities of various states such as Assam, Gujarat, Uttar Pradesh, Haryana, Maharashtra, Tamil Nadu, Kerala, Jharkhand, Punjab, Rajasthan, Meghalaya and Tripura. The group has a strong order book position with pending orders of ~Rs.650.00 crore, which are likely to be executed over the next two years.

Neccon Group benefits from its experienced management. The promoters of the group have around three decades of experience in the electrical industry.

Neccon Group's healthy financial risk profile is reflected in net worth of Rs.109.40 crore and leverage (debt-to-equity ratio) of 0.68 times as on March 31, 2014. The group's interest coverage

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Neccon Power & Infra Limited (NPIL)

Rating Rationale

ratio is comfortable at 2.59 times in FY2013–14. Neccon Group has registered healthy return on capital employed (RoCE) of 15–16 per cent and operating profit margin of 8–9 per cent during the past three years. The group primarily uses non-fund based bank facilities for its business operations.

Neccon Group is exposed to high degree of customer concentration risk, given that revenues from Assam Electricity Grid Corporation Limited account for ~60 per cent of the group's total income. Neccon Group's operations are working capital-intensive with gross current assets of 157 days and collection period of 92 days in FY2013–14. The group's average utilisation of bank limit was high at ~87 per cent during April 2014 to February 2015.

Neccon Group is setting up a 4.7 megawatt run-of-the river hydroelectric power plant at project outlay of Rs.61.00 crore. The group has completed ~90 per cent of the project. The plant is likely to be commissioned in FY2015-16.

Neccon Group faces intense competition from several players in the power infrastructure industry. The group's profit margins are susceptible to volatility in input prices.

Rating sensitivity factors

- Timely completion of the ongoing project within the envisaged cost
- Sustained growth in revenues and profitability
- Working capital management
- Bank limit utilisation

Outlook: Stable

SMERA believes Neccon Group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its strong order book and established market position in the aluminium conductors segment. The outlook may be revised to 'Positive' in case the group generates strong cash accruals (post commissioning of the ongoing project) while maintaining comfortable liquidity position. The outlook may be revised to 'Negative' in case of time or cost overruns in the ongoing project, or in case of deterioration in the group's financial risk profile on account of stretch in working capital cycle.

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Rationale**

About the project

BIPPL is a special purpose vehicle (SPV) created to execute a 4.7 megawatt run-of-the river hydroelectric power plant along the Bordikorai River in Assam. BIPPL has signed a power purchase agreement (PPA) with Assam Electricity Grid Corporation Limited. The applicable power purchase tariff rate under the agreement is Rs.2.60/per unit.

The total cost of the project is ~Rs.61.00 crore, which is funded through term loan of Rs.25.50 crore and equity of Rs.35.50 crore. The company has incurred Rs.53.00 crore towards completing ~90 per cent of the project. The plant is likely to be commissioned in FY2015-16.

About the group

Neccon Group undertakes turnkey projects for development of power infrastructure. The group comprises two entities viz. NPIL and BIPPL.

NPIL (formerly known as North Eastern Cables & Conductors Pvt. Ltd.) was incorporated in 1984. The company manufactures various types of conductors such as all-aluminium conductors, aluminium steel reinforced conductors and all-aluminium alloy conductors used for overhead transmission and distribution of electricity. The company also executes EPC contracts for state electricity boards (SEBs) and power distribution companies (PDCs). NPIL caters to state power utilities of Assam, Gujarat, Uttar Pradesh, Haryana, Maharashtra, Tamil Nadu, Kerala, Jharkhand, Punjab, Rajasthan, Meghalaya and Tripura.

BIPPL is a wholly-owned subsidiary of NPIL. BIPPL is executing a 4.7 MW hydroelectric power plant along the Brahmaputra River.

For FY2013-14, Neccon Group reported profit after tax of Rs.10.45 crore on operating income of Rs.334.92 crore, as compared with profit after tax of Rs.8.05 crore on operating income of Rs.264.13 crore in the previous year. Neccon Group's net worth stood at Rs.109.40 crore as on March 31, 2014, as compared with Rs.96.15 crore a year earlier.

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