

### Neccon Power and Infra Limited : Downgraded

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	65.00	SMERA BBB-/Negative (Downgraded from SMERA BBB and revision in outlook)
Term Loan	5.83	SMERA BBB-/Negative (Downgraded from SMERA BBB and revision in outlook)
Bank Guarantee	313.52	SMERA A3 (Downgraded from SMERA A3+)
Letter of Credit	27.48	SMERA A3 (Downgraded from SMERA A3+)

SMERA has downgraded the ratings on the Rs.411.83 crore bank facilities of Neccon Power and Infra Limited (NPIL) to **'SMERA BBB-' (read as SMERA triple B minus)** and **'SMERA A3' (read as SMERA A three)** from 'SMERA BBB' (read as SMERA BBB) and 'SMERA A3+' (read as SMERA A three plus). The outlook has been revised to **'Negative'** from 'Stable'.

SMERA has adopted a standalone approach while arriving at the ratings of NPIL as against the consolidated approach previously adopted. Earlier, SMERA had consolidated business and financial risk profile of NPIL along with its wholly owned subsidiary Brahmaputra Infra Power Private Limited (BIPPL) while arriving at the ratings of NPIL. Currently, SMERA understands that the project which was under execution in BIPPL has been terminated and hence no revenues are expected from the said project. Besides, SMERA believes that there will be no further activities in BIPPL. Against this backdrop, SMERA has considered a standalone approach for arriving at the ratings of NPIL.

The downgrade is driven by the delinquency in the term loan account of BIPPL for which NPIL has extended its corporate guarantee. SMERA expects that NPIL may be required to extend significant support to BIPPL for settling the dues with its lenders. In the event, NPIL fails to extend adequate support and lenders of BIPPL go in for legal action, the financial flexibility and resource mobilisation ability of NPIL could also be affected.

The ratings continue to derive comfort from the company's established position in execution of turnkey projects in the power sector and its experienced management. The ratings also draw support from the healthy order book and comfortable financial risk profile. However, the ratings are constrained by customer concentration risk, working capital intensive operations and susceptibility of profit margins to volatility in input prices.

### Update

NIPL's operating income increased to Rs.366.73 crore in FY2015-16 (provisional) from Rs.313.46 crore in FY2014-15. NIPL achieved revenue of Rs.127.20 crore for the period April 2016 to July 2016. The company has healthy order book position with unexecuted orders of ~Rs.1000 crore as on July 31, 2016. The operating profit margins stood at 7.53 per cent in FY2015-16 as compared to 7.54 per cent in FY2014-15. NIPL's adjusted debt to equity (after excluding advances given to BIPPL from net worth) stood at 0.65 times as on March 31, 2016 as against 0.69 times as on March 31, 2015. The interest coverage ratio (ICR) stood at 2.36 times and debt service coverage ratio (DSCR) at 1.85 times in FY2015-16.

The working capital cycle deteriorated from 269 days in FY2014-15 to 340 days in FY2015-16 due to increase in debtors to 172 days in FY2015-16 from 137 days in FY2014-15. This is on account of year end order execution. The average bank limit utilisation has been high at 96 per cent for the six month ended July 2016. NPIL is exposed to high customer concentration risk as ~77 per cent of its FY2015-16 (PY: 62 per cent) revenues are generated from Assam Electricity Grid Corporation Limited.

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. The total cost of the project was ~Rs.61.00 crore, funded through term loan of Rs.25.50 crore and equity of Rs.35.50 crore. The plant was to be commissioned in FY2015-16. Out of the total project cost of Rs.61.00 crore, BIPPL incurred Rs.58.94 crore on the project. However, in 2015, the Assam government terminated the project since environmental clearances did not come through. Hence, as per the agreement, the government is required to refund the entire cost incurred on the project.

Based on interactions with the banker, there exists irregularity in the term loan account of BIPPL and NPIL has extended corporate guarantee for servicing the debt over the near to medium term. This is likely to exert pressure on NPIL's profitability or liquidity position and will remain a key rating sensitivity.

### **Rating Sensitivity Factors**

- Servicing of term debt in BIPPL and extent of support by NPIL
- Liquidity position of the company
- Sustained growth in revenues and profitability
- Efficient working capital management
- Movement in gearing and coverage indicators

### **Outlook: Negative**

SMERA revises its outlook to Negative on the premise that the credit profile of NPIL will face pressure over the medium term on the back of delinquency in the term loan account of its subsidiary BIPPL for which NPIL has extended guarantee. SMERA believes that NPIL may be required to extend support for servicing the debt of the subsidiary over the medium term. The rating could be revised downward in case NPIL financial risk profile exhibits further moderation on account of adverse developments like litigation related to subsidiary debt or if it faces profitability or working capital related challenges in its key business.

The outlook may be revised to 'Stable' in case NPIL regularises the term loan account of BIPPL while maintaining a comfortable financial risk profile and liquidity position.

### **About the Company**

NPIL (formerly - North Eastern Cables & Conductors Private Limited) incorporated in 1984 manufactures a range of conductors used in 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 various states including Assam, Gujarat, Uttar Pradesh. BIPPL is a wholly-owned subsidiary of NPIL.

For FY2015-16 (provisional), NPIL achieved net profit after tax (PAT) of Rs.9.92 crore on operating income of Rs. 366.73 crore as against PAT of Rs.7.39 crore on operating income of Rs.313.46 crore in FY2014-15. The tangible net worth stood at Rs.135.45 crore in FY2015-16 as against Rs.125.54 crore in the previous year.

#### Rating History:

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
24 March, 2015	Cash Credit	65.00	SMERA BBB (Assigned)	-	Stable
	Term Loan	5.83	SMERA BBB (Assigned)	-	Stable
	Bank Guarantee	313.52	SMERA A3+ (Assigned)	-	-
	Letter of Credit	27.48	SMERA A3+ (Assigned)	-	-

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#### ABOUT SMERA

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