

Press Release

National Engineers

April 06, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.6.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) on the Rs.6.00 Cr bank facilities of National Engineers (NE). The outlook is '**Stable**'.

The rating reaffirmation draws comfort from extensive experience of the proprietor and long track record of operations. The rating, however, continues to remain constrained on account of small scale of operations and fluctuating margins, working capital-intensive operations driven majorly by high inventory and receivable levels, below average financial risk profile with high gearing & moderate debt protection metrics and stretched liquidity marked by high bank limit utilization.

About the Firm

Mumbai – based, NE was established as a proprietorship firm in 1995 by Mr. Walter Almeida. The firm is engaged in manufacturing of stone crushing, screening and material handling machines. NE has its manufacturing facility located at Kundaim Industrial Estate, Goa.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of NE to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

The proprietor, Mr. Walter Almeida, has over three decades of experience in the machinery manufacturing industry. NE's established operational track record of more than two decades has helped to maintain long standing relationship with its customers and suppliers.

Acuité believes that the proprietor's extensive experience, long track record of operations and healthy relationship with customers and suppliers is expected to support its business risk profile over the medium term.

Weaknesses

- **Working capital intensive operations**

NE's working capital operations continues to be intensive marked by Gross Current Asset days (GCA) of 381 days in FY2020 against 303 days in FY2019. The debtors' days were recorded at 196 days in FY2020 against 164 days in FY2019; high majorly on account of delay in payments from customers due to the current market scenario. The inventory days were recorded at 180 days in FY2020 against 135 days in FY2019; high majorly due to the impact of covid-19. Further, the inventory holding policy of the firm depends from product to product. However, working capital bank lines remained highly utilized at ~95.95 percent for last trailing 13 months ended February, 2021.

Acuité believes that the ability of the firm to efficiently manage its working capital requirements will remain key rating sensitivity.

- **Below average financial risk profile**

Financial risk profile of NE is below average marked by low net worth, deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 3.07 times as on March 31, 2020 against 2.38 times as on March 31, 2019. TOL/TNW stood at 5.45 times as on March 31, 2020 against 4.54 times as on March 31, 2019. Tangible net worth of the firm stood low at Rs.2.51 crore as on March 31, 2020 against Rs.2.85 crore as on March 31, 2019. There has been capital

withdrawal. The total debt of Rs.7.70 crore as on March 31, 2020 mainly consists of short-term debt of Rs.7.24 crore and unsecured loans of Rs.0.46 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.86 times and 0.08 times respectively in FY2020.

The firm has availed covid loan – Working Capital Term Loan (WCTL) under Canara Credit Support – Guaranteed Emergency Credit Line (GECL) of Rs.1.20 crore in June 15, 2020. The repayment is expected to be completed by June 15, 2024.

Acuité believes that the financial risk profile of the firm is expected to remain at similar levels on account of low net worth and moderate net cash accruals and timely support from proprietor in the form of fund infusion will be critical for maintaining stable credit profile.

- **Small scale of operations and fluctuating margins**

NE has small scale of operations marked by operating income of Rs.11.48 crore in FY2020 as against Rs.13.85 crore in FY2019 and Rs.12.93 crore in FY2018. The firm has booked revenue of ~Rs.12.04 crore for the period April, 2020 to February, 2021. Even though the margins have improved in FY2020, it is fluctuating in the period under study. The operating margins stood at 12.03 percent in FY2020 as against 10.20 percent in FY2019 and 13.12 percent in FY2018. Further, profitability margins stood at 3.44 percent in FY2020 as against 2.59 percent in FY2019 and 4.26 percent in FY2018. The fluctuation in margins is majorly on account of raw material price fluctuations.

Acuité believes that the firm's ability to register significant growth in its revenues while improving its profitability are key rating sensitivity factors over the medium term.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Stretched

NE has a stretched liquidity position as reflected by high bank limit utilization and intensive working capital operations. The firm generated cash accruals of Rs.0.65 crore in FY2020 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.0.78 crore- Rs.1.46 crore over the medium term, against moderate repayment obligations in the range of Rs.0.27 crore- Rs.0.36 crore. Unencumbered cash and bank balances stood at Rs.0.03 crore as on March 31, 2020 with a current ratio of 0.91 times in the same period. Liquid investments stood at Rs.0.92 crore as on March 31, 2020. The working capital operations are intensive marked by GCA of 381 days for FY2020. The working capital bank lines remained highly utilized at ~95.95 percent for last trailing 13 months ended February, 2021.

Acuité believes that liquidity profile is expected to remain stretched on account of working capital intensive operations and high bank limit utilization.

Outlook: Stable

Acuité believes that NE will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its profitability margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	11.48	13.85
PAT	Rs. Cr.	0.39	0.36
PAT Margin	(%)	3.44	2.59
Total Debt/Tangible Net Worth	Times	3.07	2.38
PBDIT/Interest	Times	1.86	1.82

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Jan-2020	Cash Credit	Long Term	6.00	ACUITE B+/ Stable (Reaffirmed)
30-Apr-2019	Cash Credit	Long Term	5.10	ACUITE B+ (Indicative)
	Proposed Cash Credit	Long Term	0.15	ACUITE B+ (Indicative)
02-Feb-2018	Cash Credit	Long Term	5.10	ACUITE B+ (Indicative)
	Proposed Cash Credit	Long Term	0.15	ACUITE B+ (Indicative)
02-Feb-2017	Cash Credit	Long Term	5.10	ACUITE B+/ Stable (Assigned)
	Proposed Cash Credit	Long Term	0.15	ACUITE B+/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B+/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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