

Press Release

Newton Engineering And Chemicals Limited

March 02, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 22.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 22.00 crore bank facilities of Newton Engineering And Chemicals Limited. The outlook is '**Stable**'.

Newton Engineering & Chemicals Limited (NECL) was incorporated in 1996 as a result of amalgamation of Hitech Orgochem Limited (HOL) and Newton Engineering and Construction Company Limited (NECCL). NECCL was established in 1979 as a proprietorship firm by the name of Newton Engineering and Construction Company. The same was converted to private limited in 1982 with Mr. N. Gopinath as its Managing Director. HOL was incorporated 1992 in Gujarat to manufacture chemicals. Currently, NECL is managed by Mr. N. Gopinath and his wife Mrs. N. Vijayalakshmi. NECL has three divisions - project, manufacturing and chemicals.

Key Rating Drivers

Strengths

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

The promoters have over 20 years of experience in the industry. The company has been able to forge long lasting relationships with its customers.

- **Moderate financial risk profile**

NECL's financial risk profile is moderate marked by high net worth of Rs.14.95 cr as on 31 March 2016. The gearing stood at 0.80 times as on 31 March 2016 as compared to 0.95 times as on 31 March 2015. The ICR stood at 1.78 times for FY2016 as compared to 2.18 times for FY2015. DSCR stood at 1.51 times for FY2016 as compared to 0.88 times for FY2015.

- **Strong order book position**

NECL has a strong order book position with order in hand of Rs.187.19 cr as on date which the company plans to execute in a span of three years.

Weaknesses

- **Declining operating income**

The operating income has declined. The CAGR was at 16.43 percent for the period FY2014-16 due to decline in the order book position. The operating income stood at Rs.28.40 crore in FY2016 as compared to Rs.38.71 crore in FY2015.

- **Working capital intensive operations**

The operations are working capital intensive. The gross current assets stood at 220 days on account of high debtor levels of 209 days. Further, the company's liquidity profile is fully stretched as it fully

utilises its working capital limits.

• **Profitability susceptible to volatility in raw material prices**

NECL's profitability is susceptible to volatility in raw material prices (mainly steel components).

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Newton Engineering & Chemicals Limited to arrive at the rating.

Outlook: Stable

SMERA believes that NECL will maintain a stable outlook over the medium term and continue to benefit from its experienced management. The outlook may be revised to Positive in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to Negative in case of decline in revenues or profit margin, or in case of deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2015-16, the company registered profit after tax (PAT) of Rs.0.10 cr on operating income of Rs.28.40 cr as against net profit after tax of Rs.0.06 cr on operating income of Rs.38.71 cr in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	SMERA A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4

Contacts

Analytical

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ABOUT SMERA

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