

Press Release

NECO Heavy Engineering & Castings Limited (NHECL)

April 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 17.50 Cr.
Long Term Rating	SMERA B / Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.17.50 crore bank facilities of NECO Heavy Engineering & Castings Limited. The outlook is '**Stable**'.

The Nagpur-based, NHECL was incorporated in 1987 as NECO Castings Limited and is part of NECO group of industries. The name was changed to NECO Heavy Engineering & Castings Limited in 2009. The company is engaged in manufacturing various types of casting which have an end use in integrated steel plants, heavy engineering industries, sugar crushing mills among others. The installed capacity is 1500 metric tonnes per month.

Key rating drivers

Strengths

Experienced management and long track record of operations

NHECL was promoted by Mr. Basant Lal Jayaswal in 1987. Presently, the day to day operations are handled by Mr. Arbind Kumar Jayaswal who has an experience of more than three decades in the steel and foundry industry.

Moderate financial risk profile

NHECL has a moderate financial risk profile marked by a net worth of Rs.18.46 crore as on 31 March 2017 as against Rs.18.54 crore as on 31 March 2017. The gearing (Debt-Equity) stood low at 0.59 times as on 31 March 2017 as against 0.97 times as on 31 March 2016. The Interest Coverage Ratio stood at 1.58 times in FY2017 as against 1.77 times as on as on March 31, 2016. Further, the Debt Service Coverage Ratio stood at 1.31 times in FY2017 as against 1.48 times in FY2016.

Weaknesses

Working capital intensive operations

The working capital operations of NHECL are intensive marked by high Gross Current Assets (GCA) days of 293 in FY2017 as against 319 in FY2016. The GCA days are mainly dominated by high inventory days of 205 in FY2017 as against 157 in FY2016. Further, the debtor days stood at 79 in FY2017 as against 134 in FY2016. The average utilization of working capital facilities stood at ~90 percent.

Falling revenue profile

The revenue of NHECL has recorded a falling trend due to fall in demand of the company's products. The company recorded the operating income of Rs.26.44 crore in FY2017 as against Rs.33.61 crore in FY2016 and Rs.56.95 crore in FY2015. Further, the company recorded PAT of Rs.0.07 crore in FY2017 as against Rs.0.14 crore in FY2016 and Rs.0.25 crore in FY2015.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of NHECL to arrive at the rating.

Outlook – Stable

SMERA believes that NHECL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	26.44	33.61	56.95
EBITDA	Rs. Cr.	2.53	3.19	3.40
PAT	Rs. Cr.	(0.07)	0.14	0.25
EBITDA Margin	(%)	9.55	9.49	5.98
PAT Margin	(%)	(0.28)	0.43	0.43
ROCE	(%)	4.71	5.54	13.42
Total Debt/Tangible Net Worth	Times	0.59	0.97	1.02
PBDIT/Interest	Times	1.58	1.77	1.80
Total Debt/PBDIT	Times	3.99	5.50	4.92
Gross Current Assets (Days)	Days	293	319	238

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

ICRA in its press release dated 29 March, 2018 had inter-alia mentioned the following: "Issuer not cooperating"

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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	12.50	SMERA B/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4/ Stable

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ABOUT SMERA

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