

Press Release

NECO Heavy Engineering & Castings Limited

May 28, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 17.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 17.50 crore bank facilities of NECO Heavy Engineering & Casting Limited (NHECL). The outlook is '**Stable**'.

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 castings which have an end use in Integrated Steel Plants, Mini Steel Plants, other Heavy Engineering Industries, Crane manufacturing industry, Sugar crushing mills among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of NHECL to arrive at the rating.

Key Rating Drivers

Strengths

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

NHECL was promoted by Mr. Basant Lal Jayaswal in the year 1987. Currently the day to day operations are handled by Mr. Arbind Kumar Jayaswal who has an experience of more than three decades in the steel industry. Further, the company sells its products to large players such as Steel authority of India, Bharat Heavy Electricals Limited, Reliance Industries Limited among others. NHECL enjoys a relationship of more than a decade with the aforementioned companies.

- **Moderate financial risk profile**

NHECL has a moderate financial risk profile marked a low gearing (Debt-Equity) of 0.60 times as on March 31, 2018 as against 0.59 times as on March 31, 2017. The interest coverage ratio stood at 1.57 times as on March 31, 2018 as against 1.58 times as on as on March 31, 2018. Further the DSCR stood at 1.49 times as on March 31, 2018 as against 1.31 times as on March 31, 2017. The total debt of Rs.11.12 crore as on March 31, 2019 consist of Rs.10.95 crore of working capital loan and Rs.0.16 crore of long term debt. The firm has high working capital requirement due to high inventory holding days.

Weaknesses

- **Working capital intensive nature of operations**

The working capital operations of NHECL are intensive marked by high Gross Current Assets (GCA) days of 369 in FY2018 as against 293 in FY2017. The GCA days are mainly dominated by high work in progress inventory. The company manufactures casting product for heavy machineries which takes 4-8 months to process leading to high inventory days. The inventory stood at 307 days in FY2018 as against 205 in FY 2017. Further the debtor days stood high at 69 in FY2018 as against 79 in

FY2017. The average utilization of working capital facilities stood at ~90%.

Liquidity Position:

NHECL has moderate liquidity profile with cash accruals of Rs.1.11-1.29 crore over FY18-16 as against debt obligation of Rs.0.16-0.19 crore over the same period. NHECL has higher reliance on working capital requirement due to capital intensive nature of operations. The working capital limit stood at ~90% utilisation level over the last six months ending March 31, 2019. The liquidity position is expected to remain moderate in absence of high debt-funded capex.

Outlook: Stable

Acuité believes that NHECL will maintain a stable outlook over the medium term owing to its experienced management and established relationship with customers. 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 high debt funded capex than expectation leading to deterioration in the financial risk profile and elongation of working capital cycle impacting its liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.52	26.44	33.61
EBITDA	Rs. Cr.	2.42	2.53	3.19
PAT	Rs. Cr.	0.17	(0.07)	0.14
EBITDA Margin (%)		11.23	9.55	9.49
PAT Margin (%)		0.81	(0.28)	0.43
ROCE (%)		5.60	4.71	5.54
Total Debt/Tangible Net Worth	Times	0.60	0.59	0.97
PBDIT/Interest	Times	1.57	1.58	1.77
Total Debt/PBDIT	Times	4.21	3.99	5.50
Gross Current Assets (Days)	Days	369	293	319

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Sep-2018	Cash Credit	Long Term	12.50*	ACUITE B (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Assigned)

*Sublimit of EPC/EBD of Rs.1.40 crore within cash credit limit.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50*	ACUITE B / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00 (Reduced from 5.00 crore)	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

*Sublimit of EPC/EBD of Rs.1.40 crore within cash credit limit.

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About Acuité Ratings & Research:

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