

Press Release

Necco Tools

November 26, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 15.00 Cr bank facilities of Necco Tools. The outlook is '**Stable**'.

Necco Tools (NT) was established in 1981 by Mr. K Nelson in Chennai and is engaged in the manufacturing of sheet metal components namely radiators, generator parts, starter parts, press tools, gauges and other automobile components (machined components and sub-assemblies) which are primarily used in the automobile industry and electrical companies.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Necco Tools for arriving at the rating.

Key Rating Drivers

Strengths

- Extensive experience of proprietor and long track record of operations**

The proprietor, Mr. K. Nelson has an extensive experience of more than four decades in the said line of business. He has previously worked with several reputed companies and started with a small business in the electricals segment in 1981 at Tambaram, Chennai and later he moved on to establishing this business. His rich experience in the business line has not only helped the entity's liaisons with reputed customers and suppliers like Lucas TVS Ltd, Comstar Automotive Technologies Ltd, Hyundai Steel Pipe India Pvt Ltd among others but also in the y-o-y improvement in the revenue and profitability of the entity. Acuité believes that the entity will continue to benefit from its proprietor's industry experience over the medium term.

- Average financial risk profile**

The financial risk profile is average marked by modest networth, average gearing (debt-to-equity) and comfortable debt protection metrics. NT's tangible net worth has remained modest at around Rs.8.05 Cr as on March 31, 2020 (Prov). The networth levels have remained modest due to fairly moderate scale of operations and moderate operating margins, which has resulted in limited accretion to reserves over the last three years through FY2020. Though the revenues of the entity are expected to remain in the range of Rs.60.00 crore - Rs. 65.00 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves. Acuité expects the networth to remain modest in the range of Rs.9 crore - Rs. 10 Cr over the medium term, in the absence of any capital infusion by the promoters. The entity has followed a rather moderate leverage policy in the past; the same is reflected through its peak gearing levels of 1.56 times as on March 31, 2017. The leverage levels continue to remain average at around 1.25 times as on March 31, 2020 (Prov). The gearing, however, is expected to improve subsequently in the absence of any debt funded capex plans over the medium term. The entity, on the other hand, generated cash accruals in the range of Rs.1.93 Cr - Rs. 2.93 Cr over the last four years ended FY2020 (Prov). The entity's export constitutes ~5 per cent of its total sales. The entity does not enter into any forward contracts to hedge the forex exposure.

Acuité expects the financial risk profile to remain average over the medium term in the absence of any significantly debt-funded capital expenditure supported by moderate margins to support it accretion to net worth and improve its debt protection metrics.

Weaknesses

- **Revenue concentration**

NT's manufactured items include radiators, generator parts, starter parts, press tools, gauges and other automobile components (machined components and sub-assemblies) and the prime customers are from the automobile segment. NT's revenue profile includes 89 percent from the automobile segment, thereby leading to a revenue concentration risk. Moreover, the auto sector has been going through a slowdown since 2019 onwards due to change in the BS IV norms, overall economic downturn, etc.

- **Moderately working capital intensive operations**

NT's operations are moderately working capital intensive in nature as reflected by its gross current asset (GCA) days of around 101 days as on March 31, 2020 (Prov). The entity follows a two-bin approach to manage inventory and has to maintain adequate inventory of raw material and finished stock in order to cater to spot orders from customers. Moderate receivable collection period of 61 days in FY2020 (Prov) and prudent inventory management of 33 days has led to a rather moderate working capital cycle. The debtor days are expected to remain in the same line on account of the receivable policy followed by the entity.

Acuité expects the operations of the entity to remain moderately working capital intensive on account of the high inventory levels maintained by the entity to cater to spot orders and extended credit period offered to maintain customers.

Rating Sensitivities

1. Growth in the operations with sustained improvement in the profitability margins
2. Elongation in the working capital management leading to any negative impact on the liquidity profile

Liquidity: Stretched

NT's liquidity remained stretched on account of high bank limit utilization owing to moderately intensive working capital management. The working capital bank lines remained highly utilized at 95 percent through last 8 months ending October, 2020. The cash accruals, however, stood sufficient at Rs. 2.64 Cr against repayments of Rs.0.76 Cr for the same period. The cash accruals are expected to remain moderate in the range of Rs.2.83 Cr to Rs.3.50 Cr against obligations amounting to Rs.0.50 Cr to Rs.0.80 Cr for the near to medium term. Encumbrance free cash and bank balances stood low at Rs.0.05 Cr coupled with below unity current ratio of 0.97 times as on March 31, 2020.

Outlook: Stable

Acuité believes that NT will maintain a 'Stable' outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the entity registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the entity registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	65.88	67.94
PAT	Rs. Cr.	1.46	1.56
PAT Margin	(%)	2.22	2.30
Total Debt/Tangible Net Worth	Times	1.25	1.33
PBDIT/Interest	Times	2.44	3.55

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated May 29, 2020 had denoted the rating of Necco Tools as 'CARE B+/Stable/A4; DOWNGRADED; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Any Material Covenants

None

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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
ODBD	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BB/Stable (Assigned)
Term Loan	June, 20	9%- 10%	May, 23	6.50	ACUITE BB/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.