

Press Release
Tulsyan Nec Limited

March 23, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	269.00	ACUITE C Assigned	-
Total Outstanding Quantum (Rs. Cr)	269.00	-	-

Rating Rationale

Acuite' has assigned its long-term rating of '**ACUITE C' (read as ACUITE C)** on the Rs 269.00 Cr Proposed Non Convertible Debentures of Tulsyan NEC Ltd(TNECL).

Rationale for rating

The rating has been assigned based on company's proven track record in manufacturing of Thermo mechanically treated (TMT) bars. Further rating factors in improvement in operation metrics noted by improvement in operating revenue from Rs.566.51 Cr in FY2021 to Rs. 752.32 Cr in FY2022 and bi lateral compromise settlement with lenders which entails waiver of interest and part of principal amounting to Rs.804.38 Cr in FY 2022. However, rating is constrained by below average financial risk profile which led to liquidity issues faced by the company in the past which has led to corporate debt restructuring in FY2016.

Going forward, Acuite expects financial risk profile and liquidity of the company may improve with refinancing through issue of NCDs.

About the Company

Tulsyan NEC Limited Incorporated in the year 1947 by Mr. Sanjay Tulsyan Located at Bangalore, under the name National Engineering Company Limited (NECL), the company was taken over by the Tulsyan group of companies in 1986. In the year 1996, Tulsyan Synthetics Limited, a group company was merged with the NECL and the name of the company was changed to Tulsyan NEC Limited (TNECL) with effect from August 1996. TNECL is one of the major manufacturers of thermo mechanically treated (TMT) bars and billets in South India. It is also a large manufacturer of High Density Poly Ethylene (HDPE)/ Poly Propylene (PP) sacks and Flexible Intermediate Bulk Containers (FIBC) in the region. The operation of the company is divided into three divisions viz. Steel division, Synthetics division and Power division.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Tulsyan NEC Ltd

Key Rating Drivers

Strengths

Established track record and experienced management

Tulsyan NEC Ltd(TNECL) is managed by Mr. Sanjay Tulsyan and Mr. Lalit kumar Tulsyan having

experience of more than three decades in steel manufacturing industry. Company is engaged in manufacturing of Thermo mechanically treated (TMT) bars. Company's operations include steel manufacturing, power and HDPE/PP woven sacks. TNECL is fully backward integrated with its own sponge iron, bloom and power producing facilities. TNECL is one of the major producer of secondary steel products like TMT bars in southern region. TNECL operating revenue increased from Rs.566.51 Cr in FY2021 to RS.752.32 Cr in FY2022 primarily due to improvement in steel prices. Operating profit declined from Rs.21.61 Cr in FY2021 to Rs.14.66 Cr in FY2022 with operating margins of 3.81 percent in FY2021 and 1.95 percent in FY2022.

Weaknesses

Below average financial risk profile

The company's financial risk profile is below average with losses in the past resulting in erosion of networth, which stood at Rs.(624.20) Cr as on March 31st 2021 soared to Rs. 150.10 Cr as on March 31st 2022 primarily due to write back of interest and part principal amounting to Rs.804.38 Cr as part of bi lateral compromise settlement entered with lenders. Further due to losses company does not have sufficient net cash accruals to pay its interest and repayment obligation resulted in poor indicators with debt service coverage ratio stood at 0.44 times as on March 31st 2021 and 2.75 times as on March 31st 2022. Debt-EBITDA of the company stood at 0.75 times as on March 31st 2022 as compared to 7.04 times as on March 31st 2021.

High Dependence on refinancing for sustainability of operations

TNECL has faced the various liquidity issues in the past which resulted in default in the bank loans and subsequently been restructured providing some reliefs and concessions. Further, due to non adherence to the scheme by the company, the concessions provided under the scheme were withdrawn by some of the banks with retrospective effect. Further, there were delay in repayment to lenders, which has led to refinancing of the debt through issue of NCDs. However successful refinance is dependent upon compliance of various precedent conditions laid down in term sheet which are complied. Timely refinance of the debt would remain the key rating sensitivity.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

Timely refinancing by issuance of NCD

Material covenants

None

Liquidity Position: Stretched

The liquidity position is stretched due to low net cash accruals of the company in FY2022 and FY2021 against the repayment obligation of Rs 300.82 Cr and Rs 292.77 Cr during the same tenure. Further, the current ratio of the company remains below unity throughout the last three years till FY 2022. However, with the debt refinancing and issuance of proposed NCDs, liquidity of TNECL may improve in near to medium term.

Outlook

Not applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	752.32	566.51
PAT	Rs. Cr.	789.95	(9.22)
PAT Margin	(%)	105.00	(1.63)
Total Debt/Tangible Net Worth	Times	3.74	(2.47)
PBDIT/Interest	Times	163.82	1.08

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

CARE has migrated the ratings of TNECL to issuer not cooperative (INC) on 08-07-2017. Currently rating of TNECL is CARE D as on 17-03-2023 and continued to be NCI.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	269.00	ACUITE C Assigned

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About Acuité Ratings & Research

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