

Press Release

Nucon Aerospace Private Limited

April 03rd, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Facility – Term Loans	12.99	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Long Term Fund Based Facility – Cash Credit	36.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
3.	Long/Short Term Bank Facility – Bank Guarantee	60.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)& IVR A3 (IVR Single A Three)
4.	Short Term Non-Fund Based Facility – Letter of Credit	12.00	IVR A3 (IVR Single A Three)
5.	Short Term Non-Fund Based Facility – Forward Contract	12.00	IVR A3 (IVR Single A Three)
	Total	132.99	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from established track record in an industry with high entry barriers, relations with reputed defence sector clients backed by moderate order book, Y-o-Y growth in revenue with healthy EBITDA margin and robust demand. However, the rating strengths are partially offset by modest financial profile, stretched working capital cycle and high customer concentration risk.

Key Rating Sensitivities

Upward Factors

Procurement of new orders providing optimum revenue visibility along with a substantial and sustained improvement in the revenue while improving or maintaining profitability leading to improvement in the debt protection metrics.

Downward Factors

Any decline in the revenue & profitability leading to deterioration of the debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths

Established Track record in an industry with high entry barriers:

Nucon Aerospace Private Limited (NAPL), promoted by Mr. Hemant Jalan & Mr. Udit Jalan, is a resulting company on account of demerger from Nucon Industries Private Limited (NIPL), who has been in the pneumatic applications industry since 1972. Leveraging on the technical and commercial expertise, NAPL is now known as an established player with proven track record of development of control actuation and pneumatic systems for defense systems. The ability to maintain the product quality standards as per the requirement of defense research organization acts as an entry barrier. The directors are supported by a team of experienced and qualified professionals.

Relations with reputed defense sector clients backed by moderate order book:

NAPL is engaged into manufacturing of control actuation systems, high-pressure pneumatic and precision mechanical systems for aerospace and defense industries. It operates in a niche and high entry barrier industry which contains stringent pre-qualification clauses. It is recognized as a qualified vendor which works with top government research organizations, defense sector and big private players like Bharat Dynamics Limited, Defence Research & Development Organization, BrahMos Aerospace and Rafael Advanced Systems (Israel). The revenue visibility remains moderate backed by an overall outstanding order book of Rs. 246.73 Crore as on February 2020 to be executed majorly by FY23.

Y-o-Y growth in revenue with healthy EBITDA margin:

Nucon's revenues have grown from Rs. 84.17 crore in FY18 to Rs. 103.63 crore in FY19. Over the years, the company has built healthy business relations with leading defense sector clients from the domestic market and further looks to improve its off-shore orders. Attributing to manufacturing of high-value systems and sub-systems which need cutting edge technology, the operating margins (EBITDA) have been modest at ~16% in FY18 & FY19. The company's export sales is improving gradually and was at around 27% of the overall gross revenue in FY19; around 11% in FY18. Infomerics expects revenue will increase going forward on account of Government of India initiatives to give preference to the procurement of defense equipment with at least 30% Indigenous Content (IC).

Robust Demand:

GOIs initiative to increase FDI cap to 49% in the defense sector is permitted under the automatic route. Foreign investment beyond 49% and upto 100% is permitted through government approval, wherever it is likely to result in access to modern technology and with its 'Make in India' mission may give the much needed thrust required to the lagging capabilities in the segment despite being the largest spender. Given the geo-political scenario at the border the demand in the sector is expected to remain robust.

Key Weaknesses

Modest financial profile:

In the view of company's continuous R&D, advanced new facility and increase in export orders the company's overall top line remained modest at Rs. 103.63 Crore in FY19 compared to Rs. 84.17 crore in FY18. With modest tangible net-worth of Rs. 28.83 crore as on March 31, 2019 and total debt exposure of Rs. 61.31 crore as on March 31, 2019, the overall gearing stands marginally high at 2.13x as on March 31, and TOL/TNW stands at 3.69x in FY19 (FY18:3.47x). The company had did a capex of around Rs.45.00 crores in the last three years ended FY19. The first phase of capex was in FY17 & FY18 to shift the plant to other location and the other phase was in FY19 to create a dedicated sub- facility for a specific order. The initial revenue generation from the sub-facility had taken some time due to approval & certification involves. Infomerics believes with no major debt-led capex in the next three years coupled with scheduled repayment of term loans. The debt protection metrics will improve from FY21 onwards.

Stretched working capital cycle:

The elongated working capital cycle is inherent in the business, where the contracts are long term in nature, which results in higher inventory. Generally, defence orders require large number of critical tests to be done before execution and it takes 12-24 months to execute these orders depending on the type of systems and sub-systems. Additionally, execution can get delayed in getting client clearances. The Company's overall working capital cycle days thus remains moderately high. However, advance payments from customers' upto 20% moderate the liquidity stress.

High customer concentration risk:

The company's customer concentration risk is very high with only two customers contributing to ~82% of the revenue booked in FY19. Considering the specialized and critical nature of the product and high vendor switching costs it is evident that NAPL receives repeated orders from its customers.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Modest cash accruals and moderate working capital operations lead to moderate utilization of its limits at about 90% for the last twelve months ending December 2019. The liquid cash balance remained adequate at Rs. 11.29 Crore as on March 31, 2019. Liquidity is expected to be Adequate in short-medium term onwards due to scheduled repayment of term loans & incremental benefits from the capex coupled with no planned debt-led capex in the medium term.

About the Company

Set up in 2001, Nucon Aerospace Private Limited (NAPL) is engaged into manufacturing of control actuation systems, high-pressure pneumatic and precision mechanical systems for aerospace and defence industries.

Financials:

	(Rs. Crore)	
For the year ended/ As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	84.17	103.63
EBITDA	13.24	16.27
PAT	0.25	1.25
Total Debt	52.59	61.31
Tangible Net-worth	27.58	28.83
EBITDA Margin (%)	15.73	15.70
PAT Margin (%)	0.30	1.20
Overall Gearing Ratio (x)	1.91	2.13

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Facility – Term Loans	Long Term	12.99	IVR BBB-/Stable	--	--	--
2.	Long Term Fund Based Facility – Cash Credit	Long Term	36.00	IVR BBB-/Stable	--	--	--
3.	Long/Short Term Bank Facility – Bank Guarantee	Long Term/ Short Term	60.00	IVR BBB-/Stable & IVR A3	--	--	--
4.	Short Term Non-Fund Based Facility – Letter of Credit	Short Term	12.00	IVR A3	--	--	--
5.	Short Term Non-Fund Based Facility – Forward Contract	Short Term	12.00	IVR A3	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Term Loans	NA	NA	March 2022 – July 2023	12.99	IVR BBB-/Stable
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	36.00	IVR BBB-/Stable
Long/Short Term Bank Facility – Bank Guarantee	NA	NA	NA	60.00	IVR BBB-/Stable & IVR A3
Short Term Non-Fund Based Facility – Letter of Credit	NA	NA	NA	12.00	IVR A3
Short Term Non-Fund Based Facility – Forward Contract	NA	NA	NA	12.00	IVR A3