



## Press Release

### Nucon Aerospace Private Limited [NAPL]

November 30, 2023

#### Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Facilities	43.08 (Reduced from 47.68)	IVR BBB-/ Negative Outlook (IVR Triple B Minus with Negative Outlook)	Reaffirmed and Outlook revised	Simple
Short Term facilities	72.00 (Reduced from 84.00)	IVR A3 (IVR Single A Three)	Reaffirmed	Simple
<b>Total</b>	<b>115.08</b>	<b>(Rupees One hundred fifteen crores and eight lakhs only)</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The rating reaffirmation for the bank facilities continues to derive 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, elongated working capital cycle and high customer concentration risk.

The revision in outlook from stable to negative reflects significant deterioration in operating performance during FY23 reflected by declined in revenue and operating profitability. This deterioration in operating performance is attributed postponement of execution of orders due to delay in receipt of raw material from customers and due to design change. Negative outlook also reflects expectation of moderation of credit profile during FY24.

#### Key Rating Sensitivities:



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### **Upward Rating Factor**

- Ability to achieve revenue and profitability in FY24 with improvement in credit profile.

### **Downward Rating Factor**

- Any further declined in revenue and profitability leading to deterioration in credit profile and/or any deterioration in working capital cycle leading to deterioration in liquidity.

### **Key Rating Drivers with detailed description**

#### **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), which 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 a 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 in this kind of business. The directors are supported by a team of experienced and qualified professionals.

#### **Relations with reputed defense sector clients backed by healthy order book:**

NAPL is engaged in manufacturing control actuation systems, high-pressure pneumatic and precision mechanical systems for aerospace and defense industries. NAPL 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, Defense Research & Development Organization, BrahMos Aerospace and Rafael Advanced Systems (Israel). The revenue visibility remains healthy backed by total unexecuted order book of around Rs.147 Crore as of September 2023, and majority of it is to be executed by FY-25.

#### ***Presence in niche and growing defense and space segment:***



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NAPL has a presence in niche and growing defense segment. NAPL provides services to aerospace, space, naval and defense segments. Its products are niche and specialized in nature and the company has long-standing relationships with majors in each segment which can be reflected by repetitive orders from customers.

### **Strong debt protection metrics despite weak operating performance:**

NAPL's debt protection metrics remains strong overall gearing and TOL/TNW improved to 0.42x and 1.36x respectively as compared to FY22(0.64x and 1.96x respectively). Debt protection metrics improved due to reduction in debt which has reduced to Rs.34crs in FY23 (FY22: Rs.51crs), this is due to lower utilisation of working capital limits. IVR expects debt protection metrics to remain stable in FY24 with absence of debt led capex and expected improvement profitability, despite high working capital cycle. Promoters have infused additional Rs.12crs during FY23 which are subordinated to the bank loans. DSCR was below unity for FY23 however it has funded through unsecured loans.

### **Key Weaknesses**

**Weak Operating Performance in FY23 expected to improve from FY24 onwards,** NAPL's revenue has declined by 13% while EBITDA margins have declined to 16% in FY23 as compared to 19%. Revenue declined in FY23 due to delay in execution of orders due to change in design, procurement delays of material from customers, inspection, and technical delays from customers. Due to these reasons, orders amounting to Rs.30.60 crores were not executed during FY23. EBITDA margins have also declined due to operating leverage as fixed costs such as salary remains constant. However, during H1FY24, the company achieved revenue of Rs.55crs with steady execution of orders with EBITDA margins have improved to 19% as compared to 14% in H1FY23 and as compared to 16% in FY23 due to benefit of operating leverage. IVR notes that NAPL will be able to achieve projected revenue of Rs.147crs and EBITDA margins of 20% for FY24 with steady execution of the order book. NAPL's has a



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moderate order book of Rs.147crs as on 30th September 23 (1.3x of FY23 revenue) which provides medium revenue visibility.

### **Elongated 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, defense orders require a 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 be delayed in getting client clearances. The Company's overall working capital cycle days thus remains moderately high. However, advance payments from customers' up to 20% can moderate the liquidity stress.

### **Analytical Approach:**

Standalone Approach

### **Applicable Criteria:**

[Criteria of assigning rating outlook](#)

[Rating methodology for Manufacturing companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

### **Liquidity: Strong**

The liquidity of the company remains strong marked by the sufficient cash accruals as against the long-term debt repayment obligations. The unencumbered cash and cash equivalent was Rs.12.10 crore as on March 31, 2023, as against Rs.9.77 crore as on March 31, 2022. Its average maximum fund based working capital utilization for the 12 months ended September 2023 stood around 77.00%. With the capex and repayment obligations likely to be low as against the envisaged cash accruals, the liquidity is expected to remain strong 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: (Standalone)**

(Rs. Crore)



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For the year ended/ As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	118.22	102.07
EBITDA	22.45	16.32
PAT	6.34	1.07
Total Debt	51.37	34.21
Tangible Net-worth	60.78	81.56
EBITDA Margin (%)	18.99	15.99
PAT Margin (%)	5.37	1.05
Overall Gearing Ratio (x)	0.85	0.42

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount Outstanding (INR Crore)	Rating	Date(s) & Rating assigned in 2022-23 (Sept 29, 2022)	Date(s) & Rating assigned in 2021-22 (July 02, 2021)	Date(s) & Rating assigned in 2020-21 (April 03, 2020)
1.	Long Term Facility	Long Term	43.08	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-; Credit Watch with Developing Implications	IVR BBB-/Stable Outlook
5	Short Term Facility	Short Term	72.00	IVR A3	IVR A3	IVR A3; Credit Watch with Developing Implications	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](http://www.infomerics.com).



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### **Name and Contact Details of the Rating Team:**

Name: Amey Joshi

Tel: (022) 62396023

Email: [amey.joshi@infomerics.com](mailto:amey.joshi@infomerics.com)

### **About Infomerics:**

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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### **Annexure 1: Details of Facilities**



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Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Facility	43.08	NA	NA	--	IVR BBB-/ Negative
Short Term Facility	72.00	NA	NA	--	IVR A3

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-Nucon-nov23.pdf>

Name of Lender/Banker	Facilities	Nature	Rated Amount (Rs. crore)
Union Bank of India	Cash Credit	Long Term	36.00
Union Bank of India	Letter of Credit	Short Term	12.00
Union Bank of India	Bank Guarantee	Short Term	60.00
Union Bank of India	UGECL-I	Long Term	2.09
Union Bank of India	UGECL-II	Long Term	4.99

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**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 <https://www.infomerics.com/>.