

## Rating Rationale

June 22, 2023 | Mumbai

### Nuberg Engineering Limited

Ratings reaffirmed at 'CRISIL BBB+/Stable/CRISIL A2'; Rated amount enhanced for Bank Debt

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.377 Crore (Enhanced from Rs.207 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL BBB+/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A2 (Reaffirmed)</b>

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB+/Stable/CRISIL A2' ratings on the bank facilities of Nuberg Engineering Limited (NEL).

The ratings continue to reflect the established position of NEL in the engineering, procurement and construction (EPC) industry, extensive experience of the promoters and steady revenue growth while maintaining comfortable financial risk profile. Revenue increased by around 12% to Rs 445 crore in fiscal 2023 and is expected to improve further over the medium term, supported by sizeable orders in hand. Orders to sales ratio stood healthy at around 3.5 times as of April 2023, to be executed over the next three years, providing strong medium-term revenue visibility. Timely execution of projects and sustenance of a healthy order book will remain closely monitored. The operating margin moderated to around 7% in fiscal 2023 (from 10-12% in the past) due to rise in material cost. However, the margin should improve over the medium term, driven by healthy profitability from the current high-value orders; this will remain a key monitorable.

These strengths are partially offset by exposure to intense competition, cyclicity in the EPC industry and large working capital requirement.

#### Key rating drivers and detailed description

##### Strengths

##### Established market position in the EPC industry

The two-decade-long experience of the promoters helped the company withstand industry cycles, establish healthy market presence and develop a diversified business risk profile. The company undertakes EPC contracts for installation of plants for caustic soda, gelatin, hydrogen peroxide, and sulphuric acid; it also manufactures gas generators, and does heavy fabrication work. The company has developed the required technical and project management capabilities to execute large projects. Further, it has established relationship with technology collaborators across the international market.

##### Steady revenue growth

Revenue increased at a compound annual growth rate of 10% over the five fiscals through 2022 and has improved further by around 12% to Rs 445 crore in fiscal 2023 owing to healthy order book and timely execution of the ongoing orders. Orders stood at around Rs 1,540 crore as of April 2023, to be executed over the next three fiscals. The order book consists of strong counterparties such as Indian Oil Corporation Ltd, FACT and Tata Steel.

##### Comfortable financial risk profile

Financial risk profile should remain supported by healthy accretion to reserve. Networth stood adequate at around Rs 159 crore on March 31, 2023 (Rs 141 crore a year ago). Gearing was 0.45 time as on March 31, 2023 (0.34 time a year ago) and total outside liabilities to adjusted networth ratio at 1.55 times (1.75 times). Debt protection metrics were strong, with interest coverage ratio of 4.5 times and net cash accrual to adjusted debt ratio of 0.3 time in fiscal 2023.

##### Weaknesses

##### Exposure to intense competition and cyclicity in the EPC industry

NEL undertakes construction under the EPC model. Projects are secured through tenders floated by the government or private entities, where revenue and profitability depend on successful bidding. In the EPC segment, the company competes with multinational players such as the L&T group, Furnace, Fabrica India Ltd, Hindustan Dorr Oliver Ltd, and Jeil Chemical Co Ltd. Competitive pressure and tender-based nature of business may continue to constrain scalability, pricing power and profitability. Though the business risk profile is expected to remain stable, backed by repeat orders from existing clients, revenue remains susceptible to economic cycles that impact the construction industry.

##### Large working capital requirement

Gross current assets (GCAs) were around 225 days as on March 31, 2023 (273 days a year ago), driven by debtors of 125 days (139 days). GCAs are projected at above 200 days over the medium term. The working capital cycle has been stretched due to funds being stocked in the form of retention money. The expected increase in scale will further constrain the working capital cycle and hence, its prudent management will remain closely monitored

#### **Liquidity: Adequate**

Bank limit utilization stood at 73.2% for the 12 months through March 2023. Cash accrual (Rs 21.5 crore in fiscal 2023) is projected at more than Rs 25-30 crore per annum, against term debt obligation of Rs 8.8-9.8 crore over the medium term; the surplus cash will aid financial flexibility. Low gearing and moderate networth also support liquidity.

#### **Outlook: Stable**

NEL will continue to benefit from extensive experience of the promoters and its sizeable order book.

#### **Rating sensitivity factors**

##### **Upward factors**

- Revenue increasing to more than Rs 700 crore and the operating margin steady at over 12%, leading to higher-than-expected cash accrual
- Strengthening of the financial risk profile, with total outside liabilities to tangible networth ratio less than 1 time.

##### **Downward factors**

- Revenue declining by more than 20% or operating margin less than 8%, resulting in lower-than-expected cash accrual
- Large, debt-funded capital expenditure or a further stretch in the working capital cycle

#### **About the company**

Incorporated in 1996 as a private-limited company, NEL got reconstituted into a closely held public-limited company in 2008. The company provides EPC services and manufactures gas generators, heat exchangers, condensers, reactors, pressure vessels, columns, and storage tanks. It also undertakes projects for laying and installing chemical plants as per design and technology specified by the customer. Mr Anil Kumar Tyagi and Mr Vinod Kumar Gupta are the promoters.

#### **Key financials indicators**

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	368.45	319.39
Reported profit after tax (PAT)	Rs crore	15.88	48.59
PAT margin	%	4.31	15.21
Adjusted debt/adjusted networth	Times	0.34	0.23
Interest coverage	Times	4.68	12.92

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### **Annexure - Details of instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	282	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BBB+/Stable
NA	Foreign Bill Discounting	NA	NA	NA	45	NA	CRISIL BBB+/Stable
NA	Inland/Import Letter of Credit	NA	NA	NA	35	NA	CRISIL A2
NA	Long Term Loan	NA	NA	Mar-26	3	NA	CRISIL BBB+/Stable
NA	Working Capital Term Loan	NA	NA	Mar-26	2	NA	CRISIL BBB+/Stable

#### **Annexure - Rating History for last 3 Years**

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	60.0	CRISIL BBB+/Stable		--	30-06-22	CRISIL BBB+/Stable / CRISIL A2	29-04-21	CRISIL A3+ / CRISIL BBB/Positive	17-01-20	CRISIL A3+ / CRISIL BBB/Stable	CRISIL A3+ / CRISIL BBB/Stable

			--		--		--		--	08-01-20	CRISIL A3+ / CRISIL BBB/Stable	--
<b>Non-Fund Based Facilities</b>	ST	317.0	CRISIL A2		--	30-06-22	CRISIL A2	29-04-21	CRISIL A3+	17-01-20	CRISIL A3+	CRISIL A3+
			--		--		--		--	08-01-20	CRISIL A3+	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	125	Union Bank of India	CRISIL A2
Bank Guarantee	107	Union Bank of India	CRISIL A2
Bank Guarantee	50	IndusInd Bank Limited	CRISIL A2
Cash Credit	10	IndusInd Bank Limited	CRISIL BBB+/Stable
Foreign Bill Discounting	45	Union Bank of India	CRISIL BBB+/Stable
Inland/Import Letter of Credit	35	Union Bank of India	CRISIL A2
Long Term Loan	3	Bajaj Finserv Limited	CRISIL BBB+/Stable
Working Capital Term Loan	2	Union Bank of India	CRISIL BBB+/Stable

#### Criteria Details

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">The Rating Process</a>
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">Rating Criteria for Engineering Sector</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

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