



RATING RATIONALE

31 Jan 2020

Nilkanth Concast Pvt Ltd

Brickwork Ratings Upgrades the ratings for the Bank Loan Facilities of ₹. One Hundred and Nine Crores of Nilkanth Concast Pvt Ltd (NCPL or The 'Company')

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (March, 2019)	Present
Fund based	50.00	50.00	Long Term	BWR BBB- (Stable)	BWR BBB Upgraded Stable
Fund Based (Proposed)	14.00	14.00	Long Term		
Non Fund Based	45.00	45.00	Short Term	BWR A3	BWR A3+ Upgraded
Total	109.00	109.00	INR One Hundred and Nine Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

Rating: Upgraded

RATING ACTION / OUTLOOK

The rating upgradation factors, inter alia, significant growth in scale of operations, comfortable cash accruals against meagre long term debt, and moderate financial risk profile coupled with adequate networth position. Further, the rating factors in promoters' experience in their line of business activity, established track record as well as the ability of promoters to infuse capital. The Rating is however, constrained by, working capital intensive nature of operations, low net profit margins and intensely competitive nature of the industry.

The 'Stable' outlook indicates a low likelihood of rating change over in the medium term. BWR expects that NCPL's business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the Company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The

outlook may be revised to Negative if the Company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position.

KEY RATING DRIVERS

Credit Strengths:

- **Established presence of the company and experience of the management:** NCPL has an established presence since 2003. Mr. Chandrashekar Ayachi is the managing director of the Company and has an extensive experience of around 4 decades in the line of business. He is well supported by his two sons, Mr Nakul Ayachi and Mr Agnivesh Ayachi who are well qualified and look after the marketing of the Nilkanth group . Hence, the Company has experienced top and second line of management and is also supported by a professional team.
- **Modest scale of operations:** Total operating income has significantly increased from Rs 340.88 Crs in FY18 to Rs 518.74 Crs in FY19. Moreover, NCPL has achieved 97% of its projected revenue in FY19. Further, the Company has achieved an income of Rs 325.00 Crs as per FY20 provisional (Dec) and appears to be on course to meet its projections for FY20.
- **Moderate financial risk profile:** As per scale of operations and level of debt, the Company has a comfortable networth (analyzed) of Rs 77.67 Crs. Further, there is continuous and steady infusion of funds by promoters which stood at Rs 31.07 Crs in FY19 increased to Rs 43.95 Crs as on 31st December provisional FY20. Gearing is low at 0.81 times in FY19. Both the debt protection metrics remained moderate in FY19.

Credit Risks:

- **Low profit margin:** Net profit margin is low at 0.48% and operating profit margin at 4.91% in FY19 against 0.42% and 6.32% in FY18 respectively.
- **Volatile and fragmented nature of steel industry:** Indian steel industry is highly dependent on general economic activities of the country. Further, the industry is facing intense competition from a large number of players on a global level. This may affect the availability and prices of raw material as well as the finished products.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

While assigning the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

RATING SENSITIVITIES

Positive:

- Substantial improvement in the revenue and cash accruals along with improving profit margins on a sustained basis will be positive for the ratings.
- Improved working capital management
- Specific credit metrics that could lead to an upgrade of NCPL's rating include (1) ISCR above 3.00 times on sustained basis, (2) OPM above 8% and NPM above 3% on a sustained basis (3) Current ratio above 1.30 times

Negative :

- Withdrawal of promoter’s contribution and unsecured loans
- Decrease in revenue of the company along with decreased profit levels
- Specific credit metrics that could lead to downgrade of NCPL’s rating include (1)total debt/equity above 1.30 times

LIQUIDITY POSITION: ADEQUATE

The Company has adequate liquidity position reflected by sufficient cash accruals of Rs 9.53 Crs against CPLTD of Rs 3.70 Crs in FY19. Further, working capital utilization has reduced from 94% to 88% from FY18 to FY19 respectively. ISCR and DSCR remain moderate at 1.71 times and 1.50 times in FY19.

COMPANY PROFILE

Nilkanth Concast Pvt Ltd, established in the year 2003 is promoted by Mr Chandrashekhar Ayachi in Kutch, Gujarat. NCPL has an integrated steel plant manufacturing TMT bars from iron ore. It has a production capacity of 1,20,000 Metric Tonne Per Annum (MTPA) for billets & TMT bars and 72,000 MTPA for Sponge Iron. The Company has a 10 Megawatt (MW) captive power plant for the manufacturing facility.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Total Operating Income	Rs in Crs	518.74	340.88
EBITDA	Rs in Crs	25.46	21.53
PAT	Rs in Crs	2.47	1.42
Tangible Net worth (Analyzed)	Rs in Crs	77.67	65.77
Total Debt/TNW (Analyzed)	Times	0.81	0.82
Current Ratio (Analyzed)	Times	1.16	1.11

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: The terms of sanction for the bank loan facilities include standard covenants normally stipulated for such facilities. Further, as per bank’s sanction letter, company’s unsecured loans from promoters and friends are subordinated with the bank and would not be withdrawn during the currency of the bank loan. Hence, unsecured loans have been treated as quasi capital.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: In the view of non availability of information, Nilkanth Concast Pvt Ltd’s ratings with CARE has been moved to Issuer Non Cooperation on 1st July 2019.

RATING HISTORY

Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	March, 2019	2018	2017
Fund Based	Long Term	50.00	BWR BBB Upgraded Stable	BWR BBB- Stable	NA	NA
Fund Based (Proposed)	Long Term	14.00	BWR A3+ Upgraded	BWR A3		
Non Fund Based	Short Term	45.00	BWR A3+ Upgraded	BWR A3		
Total		109.00	INR One Hundred and Nine Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1.	State Bank of India	Cash Credit	6.25	0.00	6.25
		Letter of Credit	0.00	7.20	7.20
		Buyers Credit	0.00	(7.20)	(7.20)
2.	Indian Overseas Bank	Cash Credit	43.75	0.00	43.75
		Letter of Credit	0.00	37.80	37.80
3.	Proposed	Working Capital	14.00	0.00	14.00
TOTAL					109.00

Total Rupees One Hundred and Nine Crores only.

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