

Rating Rationale

September 04, 2024 | Mumbai

Nuberg Engineering Limited

Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.427 Crore (Enhanced from Rs.377 Crore)
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

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, the extensive experience of its promoters and steady revenue growth while maintaining a comfortable financial risk profile. Revenue increased by around 6% to Rs 466 crore in fiscal 2024 from Rs 440 crore in fiscal 2023 driven by the timely execution of orders and is expected to improve further over the medium term, supported by sizeable orderbook. Orders to sales ratio stood healthy around 2.7 times as of April 2024, to be executed over the next three years, providing strong medium-term revenue visibility. The timely execution of projects and sustenance of healthy orderbook will remain closely monitored. The operating margin is estimated to have improved to 12.00-12.25% in fiscal 2024 (4.13% in fiscal 2023) due to softening raw material cost. However, 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 & Detailed Description

Strengths:

Established market position in the EPC industry

The two-decade-long experience of the promoters has helped the company withstand industry cycles, establish a 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 13.4% over the three fiscals through 2024: to Rs 466 crore in fiscal 2024 owing to healthy orderbook and the timely execution of ongoing projects. Orders worth Rs 1267 crore (as of April 2024) are to be executed over the next three fiscals. The orderbook consists of strong counterparties such as Indian Oil Corporation, FACT and Tata Steel.

Comfortable financial risk profile

The financial risk profile should remain supported by healthy accretion to reserve. Networth is estimated at Rs 175-180 crore as on March 31, 2024 (Rs 150.8 crore a year earlier) and is expected to be over Rs 200 crore as on March 31, 2025 driven by healthy accretion to reserve. Gearing is estimated at 0.45-0.5 time as on March 31, 2024 (0.52 time) and is expected to remain below 0.4 time as on March 31, 2025 driven by no debt funded capex plans. Debt protection metrics are estimated to be comfortable, with interest coverage ratio of 4.0-4.5 times and net cash accrual to adjusted debt ratio of 0.3-0.4 time in fiscal 2024.

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 other players in the market. Competitive pressure and tender-based nature of business may continue to constrain scalability, pricing power and profitability. Though business risk profile is expected to remain stable, backed by repeat orders from existing clients, revenue continues to be susceptible to economic cycles that impact the construction industry.

Large working capital requirement

Gross current assets (GCAs) are estimated at 250-260 days as on March 31, 2024 (230 days a year earlier), driven by debtors of 162 days (140 days). GCAs are projected to be above 230 days over the medium term. The working capital cycle has been stretched due to funds being stocked in the form of retention money and high sales at year-end. 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 utilisation averaged 85% for the 12 months ended June 2024. Expected annual net cash accrual of Rs 30-35 crore should comfortably cover yearly repayment obligations of Rs 7-10 crore over the medium term. The current ratio is estimated at 1.45 times as on March 31, 2024.

Outlook: Stable

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

Rating Sensitivity Factors**Upward factors**

- Revenue increasing to more than Rs 600 crore and operating margin sustaining at 10-11%, leading to higher-than-expected cash accrual
- Sustenance of healthy financial risk profile.

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 financial indicators*

As on/for the period ended March 31	Unit	2023	2022
Operating income	Rs crore	440.31	368.45
Reported profit after tax (PAT)	Rs crore	10.47	15.87
PAT margin	%	2.38	4.31
Adjusted debt/adjusted networkth	Times	0.52	0.34
Interest coverage	Times	1.67	4.68

*CRISIL Ratings adjusted financials

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.

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For more details on the CRISIL Ratings` complexity levels please visit 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 Outstanding with Outlook
NA	Bank Guarantee	NA	NA	NA	282.00	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	55.00	NA	CRISIL BBB+/Stable
NA	Inland/Import Letter of Credit	NA	NA	NA	35.00	NA	CRISIL A2
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	10.00	NA	CRISIL BBB+/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	40.00	NA	CRISIL A2

NA	Long Term Loan	NA	NA	31-Mar-27	3.00	NA	CRISIL BBB+/Stable
NA	Working Capital Term Loan	NA	NA	31-Mar-27	2.00	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

		Current		2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	70.0	CRISIL BBB+/Stable		--	22-06-23	CRISIL BBB+/Stable	30-06-22	CRISIL BBB+/Stable / CRISIL A2	29-04-21	CRISIL A3+ / CRISIL BBB/Positive	CRISIL A3+ / CRISIL BBB/Positive
Non-Fund Based Facilities	ST	357.0	CRISIL A2		--	22-06-23	CRISIL A2	30-06-22	CRISIL A2	29-04-21	CRISIL A3+	CRISIL A3+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	50	IndusInd Bank Limited	CRISIL A2
Bank Guarantee	125	Union Bank of India	CRISIL A2
Bank Guarantee	107	Union Bank of India	CRISIL A2
Cash Credit	10	IndusInd Bank Limited	CRISIL BBB+/Stable
Cash Credit	45	Union Bank of India	CRISIL BBB+/Stable
Inland/Import Letter of Credit	35	Union Bank of India	CRISIL A2
Long Term Loan	3	Union Bank of India	CRISIL BBB+/Stable
Proposed Fund-Based Bank Limits	10	Not Applicable	CRISIL BBB+/Stable
Proposed Non Fund based limits	40	Not Applicable	CRISIL A2
Working Capital Term Loan	2	Union Bank of India	CRISIL BBB+/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
The Rating Process
CRISILs Bank Loan Ratings
Rating Criteria for Engineering Sector
Understanding CRISILs Ratings and Rating Scales

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