CRISIL Ratings

Rating Rationale

June 30, 2022 | Mumbai

Nuberg Engineering Limited

Ratings upgraded to 'CRISIL BBB+/CRISIL A2'; Outlook revised to 'Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.207 Crore**
Long Term Rating	**CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Positive' and outlook revised to 'Stable')**
Short Term Rating	**CRISIL A2 (Upgraded from 'CRISIL A3+ ')**

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 upgraded its ratings on the bank facilities of Nuberg Engineering Limited (NEL) to '**CRISIL BBB+/CRISIL A2'** from 'CRISIL BBB/CRISIL A3+'; the outlook has been revised to **'Stable'** from 'Positive'.

The upgrade reflects a belief that the business risk profile of NEL will continue to improve over the medium term, driven by its established position in the engineering, procurement and construction (EPC) industry and extensive experience of the promoters. Revenue increased by 13% in fiscal 2022 and is expected at over Rs 500 crore in fiscal 2023, supported by sizeable orders in hand. Orders to sales ratio is healthy at 4.5 times as of Apr-22, 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 key monitorables. Operating margin is projected at 11-12% over the medium term, driven by timely completion of projects and successful bidding for high-value tenders. Financial risk profile should continue to be supported by the absence of any large, debt-funded capital expenditure (capex).

The ratings consider established market position of NEL in the EPC and gas generator segments, steady revenue growth while maintaining healthy profitability and comfortable financial risk profile. These strengths are partially offset by exposure to intense competition and cyclicality in the EPC industry.

Key rating drivers & detailed description
Strengths:
Established market position in the EPC and gas generator segments
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 while maintaining healthy profitability
Revenue increased at compound annual growth rate of 10% over the five fiscals through 2022, while operating margin remained healthy at above 10%, supported by healthy demand and efficient project execution. Revenue is estimated at more than Rs 375 crore in fiscal 2022 and projected at over Rs 500 crore in fiscal 2023 and above Rs 600 crore in fiscal 2025 owing to healthy order book (Rs 1,680 crore as of April 2022, to be executed over the next three years). Operating profitability is expected to sustain at 11-12% over the medium term as the company tends to quote healthy margin while bidding for projects.

Comfortable financial risk profile
Financial risk profile should remain supported by healthy accretion to reserve. Networth was adequate at Rs 150 crore as on March 31, 2022, and gearing comfortable below 0.40 time; total outside liabilities to adjusted networth ratio improved to 1.20 times as on March 31, 2022, from 2.66 times as on March 31, 2019, and is projected at around 1.0-1.2 times over the medium term. Debt protection metrics were strong, with interest coverage and net cash accrual to adjusted debt ratios estimated at over 5.0 times and 0.4 time, respectively, in fiscal 2022.

Weaknesses:
Exposure to intense competition and cyclicality 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.

Liquidity: Adequate
Cash accrual is projected at Rs 30-35 crore each for fiscals 2023, 2024 and 2025, sufficient to cover the yearly debt obligation of just Rs 4.5-5.0 crore; the surplus cash will be used as working capital. Utilisation of the fund-based facility stood at 71% on average over the 12 months through May 2022. Unencumbered cash and bank balance were healthy at more than Rs 10.0 crore and current ratio robust at 1.7 times as on March 31, 2022.

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 earnings before interest, taxes, depreciation, and amortisation margin steady at over 12%
- Further improvement in the financial risk profile

Downward factors
- Large, debt-funded capex, weakening the financial risk profile
- Sizeable stretch in the working capital requirement, with gross current assets rising over 250 days

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

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	319.4	503.5
Reported profit after tax (PAT)	Rs crore	48.6	63.9
PAT margin	%	15.2	12.7
Adjusted debt/adjusted networth	Times	0.2	0.2
Interest coverage	Times	13.7	12.2

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. 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 level	Rating assigned with outlook
NA	Foreign Bill Discounting	NA	NA	NA	30	NA	CRISIL A2
NA	Inland/Import Letter of Credit	NA	NA	NA	20	NA	CRISIL A2
NA	Letter of Guarantee	NA	NA	NA	133	NA	CRISIL A2
NA	Long Term Bank Facility	NA	NA	Mar-26	22	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	Mar-23	2	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	54.0	CRISIL BBB+/Stable / CRISIL A2		--	29-04-21	CRISIL A3+ / CRISIL BBB/Positive	17-01-20	CRISIL A3+ / CRISIL BBB/Stable	07-01-19	CRISIL A3+ / CRISIL BBB/Stable	CRISIL BBB/Stable
			--		--		--	08-01-20	CRISIL A3+ / CRISIL BBB/Stable		--	--

Non-Fund Based Facilities	ST	153.0	CRISIL A2		--	29-04-21	CRISIL A3+	17-01-20	CRISIL A3+	07-01-19	CRISIL A3+	CRISIL A3+ / CRISIL BBB/Stable
			--		--		--	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
Foreign Bill Discounting	30	Union Bank of India	CRISIL A2
Inland/Import Letter of Credit	20	Union Bank of India	CRISIL A2
Letter Of Guarantee	133	Union Bank of India	CRISIL A2
Long Term Bank Facility	22	Bajaj Finance Limited	CRISIL BBB+/Stable
Long Term Loan	2	Union Bank of India	CRISIL BBB+/Stable

This Annexure has been updated on 13-Mar-23 in line with the lender-wise facility details as on 21-Feb-23 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing 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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