

## Nulux Engineers

March 24, 2022

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	13.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>13.00 (Rs. Thirteen Crore Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from **Nulux Engineers** to monitor the rating vide e-mail communications/letters dated January 04, 2022, March 15, 2022 among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, Nulux Engineers has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on **Nulux Engineers** bank facilities will now be denoted as **CARE A4; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The rating to the bank facilities of Nulux Engineers (NE) is continued to be constrained by modest scale of operations with moderate profit margins, leveraged capital structure and weak debt coverage indicators and highly working capital-intensive nature of operations of business. The rating is further constrained by company's presence in highly fragmented nature of industry characterized by intense competition with geographical and supplier concentration risk and foreign currency fluctuation risk. The rating, however, continues to derive strength from long track record of operations with experienced partners and operational synergies amongst group entities with diversified product profile.

### Detailed description of the key rating drivers

At the time of last rating on March 26, 2021 the following were the rating strengths and weaknesses (updated for the information available from Annual Report of FY21).

#### Key Rating Weaknesses

##### Modest scale of operations with moderate profit margins

During FY21, the TOI of the firm has declined by 6.14% to Rs.34.81 crore (vis-à-vis Rs.37.08 crore in FY20) primarily on account of low demand from its domestic customers due to COVID-19 pandemic. The firm earned around 99.48% of its revenue through exports in FY21 (as compared to 98.98% in FY20). During FY21, the local sales has significantly declined by 45.86% to Rs.0.17 crore in FY21 (as against Rs.0.32 crore in FY20), however, the share of the same remain lower. During 11MFY22, the firm has recorded total sales of around Rs.40.00 crore (vis-à-vis Rs.31.95 crore during in 11MFY21). PBILDT margin has declined by 1135 bps (from 16.60% in FY20 to 5.25% in FY21) due to increase in cost of sales as percentage of ToI from 83.40% in FY20 to 94.75% in FY21. In line with PBILDT, the PAT margin has declined by 416 bps (from 8.78% in FY20 to 4.62% in FY21) due to significant decline in PBILDT in absolute terms by 70.30% to Rs.1.83 crore in FY21 (vis-à-vis Rs.6.16 crore in FY20).

##### Leveraged capital structure and moderate coverage indicators

The capital structure of NE continues to remain leveraged however; the same has improved with the overall gearing at 1.96 times ended March 31, 2021 (vis-à-vis 1.99 times in March 2020), owing to significant increase in tangible networth base on account of accretion of profits along with reduction in working capital borrowing during the year. The debt coverage indicators viz. total debt to gross cash accruals (GCA) and interest coverage ratio has deteriorated and stood at 12.51 times and 0.96 times respectively in FY21 (vis-à-vis 5.96 times and 2.26 times in FY20) owing to low level of PBILDT in FY21. Nevertheless, the debt coverage indicators continue to remain moderate.

##### Highly working capital-intensive nature of operation

The operations of NE are highly working capital intensive in nature with majority of funds blocked in debtors. The average collection period remained stretched at 309 days in FY21 owing to major chunk of debtors are from its group company i.e. Kishan Nigeria Ltd. and Nulux Nigeria Limited. Against the same, the firm receives limited credit period of 60 to 90 days from its suppliers. Given this, the operating cycle stood stretched at 257 days in FY21 (vis-à-vis 211 days in FY20).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Highly fragmented nature of industry characterized by intense competition**

Engineering goods trading industry is a highly fragmented industry and there are large numbers of organized and unorganized players which has led to high competition in the industry. The firm faces competition from few large players as well as numerous players in the unorganized segment. Since the industry is highly competitive has low bargaining power and as a result the firm has to follow a competitive price strategy. Also, on account of its trading nature of business, the entry barriers are low leading to stiff competition for the firm.

**Foreign currency fluctuation risk**

NE is exposed to significant foreign exchange fluctuation risk; given NE has generated 100% of its revenue in the form of foreign currency by mercantile trading to Nigeria, Ghana, Burkina Faso, Egypt and others. However, 50-60% of risk can be mitigated through natural hedging with presence of imports, as the firm imports 60% of its purchase from China. Nevertheless, any adverse currency price fluctuation along with the mismatch in the timing differences may impact the profitability of the firm. During FY21, the firm has incurred net forex loss of Rs.0.56 crore (as against net forex gain of Rs.2.21 crore during FY20).

**Geographical concentration risk**

NE procures majority of its finished goods purchases from China and also sells the same to Nigeria and hence, exposed to geographical concentration risk as any regulatory changes in the foreign policies may directly impact the sales of NE.

**Partnership constitution of firm**

Being a partnership firm, HTC has inherent risk of withdrawal of capital at the time of personal contingency. Furthermore, it has restricted access to external borrowings where net worth as well as creditworthiness of the proprietor are the key factors affecting credit decision of the lenders. Hence, limited funding avenues along with limited financial flexibility have resulted in small scale of operations for the firm.

**Key rating Strengths****Long track record of operations with experienced partners and operational synergies amongst group entities**

NE possesses a long track record of over more than four decades of operations in trading of various engineering goods; automobile spares parts and agricultural equipment. Furthermore, the partners are having reasonable experience in the industry with Mr. Dinesh Puri and Mrs. Vimmi Puri has more than two decades of experience in same line of business and looks after the overall management of the firm. Furthermore, the firm is also supported by Mr. Akhil Dinesh Puri who possesses total experience of 7 years on same line of business. Moreover, the firm derives operational synergies with its group entities viz. Krishna Nigeria Ltd (KNL) and Nulux Nigeria Ltd (NNL) through selling majority of its products to them who in turn selling the same to Africa and the Middle East with more than 300 customers.

**Diversified product profile**

The firm has wide range of products engineering goods and automobile spares parts for automotive industry viz. Diesel engines, Diesel Generation sets, Pumping sets, Rice Huller, grinding mill, Hydraulic thresher, Brake Parts, Clutch Parts, Control Cables, Wiring Harness Head Lights and agricultural products like soil Preparation Equipment's (Tillers, Disc Harrows, Disc Poughs, Seed Drills, Planters And Roto weilers etc.), Irrigation and water Aids (Water Pumps, Pump Sets Run On Diesel Engines), Post-harvest equipment's (Reapers, Threshers, Hullers), processing equipment's etc. the same is products are used in various industry. Moreover, the firm primarily sells its products under its own brands viz. Nulux, Topex and Aditi.

**Liquidity position: Stretched**

The liquidity position remained stretched marked by tightly matched accruals vis-à-vis repayment obligations. While, the cash balance stood low at Rs.0.40 crore as on March 31, 2021 (vis-à-vis Rs.0.24 crore as on March 31, 2020). The average fund based working capital limits are utilized at 92.08% during past twelve months ended February 28, 2021. Further, the current ratio and quick ratio stood moderate at 1.99 times and 1.92 times respectively as on March 31, 2020 (vis-à-vis 1.33 times and 1.27 times respectively as on March 31, 2020).

**Analytical approach: Standalone****Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Methodology for Short-term Instruments](#)

[Rating Methodology - Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

**About the company**

Nulux Engineers was established in 1977 by Mr. Kishanlal Hansaraj Puri as a partnership firm and is currently managed by Mr. Dinesh Krishanlala Puri, Mrs. Vimmi Puri and Mr. Akhil Puri as partners. The firm is engaged in trading of various engineering goods, automobile spares parts for automotive industry viz. Diesel engines, Diesel Generation sets, Pumping sets, Rice Huller, grinding mill, Hydraulic thresher, Brake Parts, Clutch Parts, Control Cables, Wiring Harness Head Lights and agricultural

products like soil Preparation Equipment's (Tillers, Disc Harrows, Disc Poughs, Seed Drills, Planters And Roto weiters etc.), Irrigation and water Aids (Water Pumps, Pump Sets Run On Diesel Engines), Post-harvest equipment's (Reapers, Threshers, Hullers) and processing equipment's etc. The said products are procured directly from various principal manufacturers of the same from Rajkot and China (imports comprising 40% of the annual purchases). It operates through its registered and controlling office at Mumbai, Maharashtra and also at Rajkot, Gujarat.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22 (Prov.)
Total operating income	37.08	34.81	40.00
PBILDT	6.16	1.83	NA
PAT	3.26	1.61	NA
Overall gearing (times)	1.99	1.96	NA
Interest coverage (times)	2.26	0.96	NA

A: Audited; Prov. Provisional; NA: Not available

**Current year performance:** During 11MFY22 (refers to the period April 1, 2021 to February 28, 2022), the firm has recorded Toi of around Rs.40.00 crore.

**Status of non-cooperation with previous CRA:**

CRISIL A4; Issuer did not co-operate; Based on best available information as per press release dated August 26, 2021

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated facility:** Detailed explanation of covenants of the rated facilities is given in Annexure-3

**Complexity level of various facilities rated for this company:** Annexure 4

**Annexure-1: Details of Facilities**

Name of the Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	12.00	CARE A4; ISSUER NOT COOPERATING*
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Bank Facilities	Current Ratings		Rating history				
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - ST-Packing Credit in Foreign Currency	ST	12.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (31-Mar-21)	1)CARE A4 (24-Mar-20) 2)CARE A4 (09-Sep-19)	-
2	Fund-based - ST-Packing Credit in Foreign Currency	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (31-Mar-21)	1)CARE A4 (24-Mar-20) 2)CARE A4 (09-Sep-19)	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated facilities** – Not applicable

**Annexure 4: Complexity level of various facilities rated for this company**

Sr. No	Name of facilities	Complexity level
1	Fund-based - ST-Packing Credit in Foreign Currency	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated facilities:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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**About CARE Ratings Limited:**

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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