Nava Nirman Fabrication Private Limited

May 27, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	21.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Short Term Bank Facilities	6.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	**27.00 (Rs. Twenty-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Nava Nirman Fabrication Private Limited (NNFPL) is constrained by moderation in financial performance in FY21 & FY22 (Refers to the period April 01 to March 31) from pre-covid levels, low-capacity utilization, moderate order book position, tender-based nature of operations, exposure to volatility with regard to availability and prices of raw material, competition in the locomotive segment, elongation in working capital cycle and project risk. However, the aforesaid constraints are partially offset by experienced promoters, satisfactory capital structure, diversified operations in railway segment and reputed clientele.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations above Rs.150 crore along with operating margins of more than 12% on a sustained basis
- Improvement in overall gearing ratio below 1x on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in total operating income below Rs.75 crore on a sustained basis
- Deterioration in overall gearing ratio beyond 2.5x on a sustained basis
- Any significant delay in execution of orders in hand

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderation in financial performance in FY21 & FY22 from per-covid 19 levels

The total operating income of the company has declined from Rs.177.21 crore in FY20 to Rs.47.84 crore in FY21 amid covid-19 impacted year as railways was not fully operational from March 2020 to August 2021 and hence no bulk orders were released by the government entity, resulting in sharp decline in turnover. Also, production was hampered due to non-availability of industrial oxygen which is an important consumable in fabrication work. The PBILDT margin stood at 16.86% while the PAT margin stood at 0.12% in FY21. The company generated gross cash accruals of Rs.4.92 crore in FY21 vis-à-vis Rs.14.62 crore in FY20.

NNFPL has achieved operating income of Rs.75.32 crore in FY22 (Prov.) and the normal order inflow has picked up December 2021 onwards.

Low-capacity utilization

The company has not been utilizing its capacity to its potential and the average capacity utilization for the period FY19-FY21 stands around 41%. Each bed can produce two shells in a month as average turnaround time to produce each shell takes around 15 days.

Moderate order book position

The company presently has an order to supply 42 locomotive shells amounting to Rs 41 crore which was received in Dec 2021 from CLW. The same is under execution and the balance quantity of 33 units as on March 31 2022 is likely to be completed during Q1FY23. Adding to that, the company has to supply 12 more locomotive shells under option clause. Apart from this, the company has an order book of Rs.25 crore including development orders under various stages of completion. Also, the company is in the process of bagging an order of approximately Rs.100 crore to supply 100 locomotive shells in the near term.

Tender-based nature of operations

Companies have to bid for the contracts based on tenders opened by the various public sector units. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. The company receives work orders which are short term in nature (i.e. to be completed within one year). Furthermore, orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry. RITES carries out inspection work and the goods are dispatched once approval towards the same is received.

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Adding to that, there is a non-execution risk as it was seen on one occasion where the company did not execute a work order received from Railways in November 2021 and suffered approximately Rs.1.50 crore as penalty because the item was by mistake bid at a price significantly lower. Also, the company was asked to pay EMD for all the work orders for 6 months period ending on May 23, 2022 resulting in blockage of approximately Rs.1 crore.

Exposure to volatility with regard to availability and prices of raw material
The major input materials such as M.S. plate, Hot Rolled coils and copper tubes, the prices of which are volatile. Also, the contract does not contain any price escalation clause only statutory variable clause is there, thus exposing it to the risk of loss due to adverse price movements of the input materials. This apart, any increase in labour prices will further lead to cost overrun and thus would have an impact on the profitability.
Also, there is shortage of raw material, taking around 6-8 weeks to get it delivered from the date of order, requiring maintaining high inventory for uninterrupted production.

Competition in the locomotive segment
The company faces stiff competition from limited established players in the locomotives segment. Further, in the rail EPC segment also it is exposed to competition from larger players in the industry.

Elongation in working capital cycle
The working capital cycle elongated to 50 days in FY21 from 8 days in FY20 (FY22: 86 days) due to dip in sales in FY21, increase in collection period days to 146 in FY21 as against 30 days in FY20 (FY22: 64 days) and increase in inventory period to 128 days in FY21 from 25 days in FY20 (FY22: 130 days). This was partially offset by the increase in creditors period to 225 days in FY21 vis-à-vis 47 days in FY20 (FY22: 109 days). The debtors outstanding stood at Rs.7.22 crore while the creditors stood at Rs.9 crore as on March 31, 2022.

Project risk
The company is in the process of setting up of traction motor project in a phased manner over a period of 4 years (Expected completion Year: FY26) at an estimated capex of Rs.20 crore and the same is under implementation. Rs.3 crore has already been invested towards Plant & Machinery, Shed, building, etc including purchase of Volatile Variable Frequency Drive of Schneider at a cost of Rs.1.07 crore. The project is to be funded by way of term loan from bank of Rs.8 crore, promoters to infuse Rs.8 crore by way of long-term loans (quasi capital) and the balance from internal accruals.

Key Rating Strengths
Experienced Promoters
Subodh Kumar Dutta, the director of the company, has an industry experience of more than four decades and is assisted well by the other director, Mr. Sourav Dutta along with a team of experienced professionals. NNFPL is an approved Class-I supplier of Indian Railways for manufacturing and supplying Locomotive shells, DETC, Bogies, underframes, roofs, side walls, driver's desk, steel casting, ingots and forgings, mechanised steel and wagon components. The clientele comprises mainly Chittaranjan Locomotive Works (CLW) and Diesel Locomotive Works (DLW). The long-standing experience of promoters helps the company bag repeat orders from these counterparties.

Satisfactory capital structure
The capital structure of the company though deteriorated in FY21, remains moderate marked by overall gearing of 1.39x as on March 31, 2021 as against 1.07x as on March 31, 2020 on account of increase in debt (1.26x as on March 31, 2022 Prov.). The PBILDT interest coverage ratio deteriorated to 2.83x in FY21 from 6.97x in FY20 on account of lower operating profits (4.03x as on March 31 2022 Prov.). The total outside liabilities to Net worth deteriorated to 2.77x as on March 31 2021 as against 2.12x as on March 31 2020 on account on increase in debt.

Diversified operations in railway segment and reputed clientele
The company has established position in locomotive parts segment and executes work orders for Railways on a pan india basis including Chittaranjan Locomotive Works (CLW) and Diesel Locomotive Works (DLW) and Zonal Railways. NNFPL is an approved Class-I supplier of Indian Railways for manufacturing, fabrication and supplying locomotive shells, DETC, bogies, underframe which includes roofs, side walls, driver's desk, steel casting, ingots and forgings, mechanised steel and wagon components. Locomotive shells contribute majorly to the revenue of the company, constituting around 55% in FY21 while it is approximately 83% in FY22 (Prov.).

Liquidity: Stretched
The liquidity of the company is stretched as can be seen from almost full utilization of working capital limits for the last twelve months ended March 2022 is almost full. The company has taken GECL loan of Rs.4 crore during Nov 2021 to provide liquidity cushion to the company and has repaid unsecured loans of Rs.2.71 crore taken from outsiders at a higher rate of interest. Liquidity is marked by gross cash accruals of Rs.8.10 crore against debt repayment obligation of Rs.0.98 crore during FY22 (Prov.).

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Nava Nirman Fabrication Private Limited (NNFPL), incorporated in 2009 is promoted by Mr. Subodh Kumar Dutta and family. NNFPL is an approved Class-I supplier of Indian Railways for manufacturing, fabrication and supplying of complete locomotive shells, DETC, bogies, underframe which includes roofs, side walls, driver's desk, steel casting, ingots and forgings, mechanised steel and wagon components primarily for Chittaranjan Locomotive Works (CLW), Diesel Locomotive Works (DLW) and Zonal Railways.
The overall affairs of the company are looked after by its two directors, Mr. Subodh Kumar Dutta and Mr. Sourav Dutta along with a team of experienced professionals.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (Prov.)
Total operating income	177.21	47.84	75.32
PBILDT	21.14	8.07	12.10
PAT	9.78	0.06	2.90
Overall gearing (times)	1.07	1.39	1.26
Interest coverage (times)	6.97	2.83	4.03

A: Audited, Prov.: Provisional

Status of non-cooperation with previous CRA: CRISIL moved the ratings of Nava Nirman Fabrication Private Limited under Issuer Not Cooperating vide Press release dated August 26, 2021.

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantee	-	-	-	-	6.00	CARE A4
Fund-based - LT-Cash Credit	-	-	-	-	21.00	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Bank Guarantee	ST	6.00	CARE A4				
2	Fund-based - LT-Cash Credit	LT	21.00	CARE BB; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	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 instrument: 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 for any clarifications.

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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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