

Press Release

NHS Industries

January 25, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.13.50 Cr
Long Term Rating	ACUITE B-/Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE B-**' (read as **ACUITE single B minus**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.13.50 Cr bank facilities of NHS Industries (NHSI). The outlook is '**Stable**'.

About the company

NHS Industries (NHSI) was established in 2015 by Mr. N. S. Bhargav Reddy, Proprietor. It is into manufacturing of High Density Polyethylene (HDPE)/Polypropylene (PP) Bags and Fabric, located in Bangalore, Karnataka. The firm started its operation in November 2016. The firm at present has an Installed capacity is 240 tons per month utilizing at 90 percent at present.

The rating upgrade factors in the timely repayment of its debt obligations.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of NHSI to arrive at the rating

Key Rating Drivers

Strengths

• Experienced management and improving scale of operations

NHSI is promoted by Mr. N. S. Bhargav Reddy, who has more than a decade of experience in the polymers industry. The promoters' extensive experience and long track record has helped the firm in building established relation with its customers and suppliers over the years. The aforesaid factors have helped the firm in improving its revenues from Rs.7.75 Cr in FY2018 to Rs.9.04 Cr in FY2019 and Rs.16.28 Cr in FY2020 (Provisional). NHSI generated revenue of Rs.15.66 Cr for 9M of FY2021 until December 2020. Acuite believes that NHSI will continue to benefit from its experienced management over the medium term.

Weaknesses

• Weak financial risk profile

The firm's financial risk profile is weak marked by modest capital structure and weak debt protection metrics. The networth stood at Rs.0.98 Cr as on March 31, 2020 (Provisional) as against Rs.2.10 Cr as on March 31, 2019. The networth erosion is on account of losses incurred for FY18-20. The debt – equity (gearing) ratio stood at 14.68 times as on March 31, 2020 (Provisional) as against 6.95 times as on March 31, 2019. The gearing deteriorated on account of eroded networth. Interest Coverage Ratio (ICR) stood at 1.30 times for FY2020 (Provisional) as against 0.80 times for FY2019. The marginal improvement in ICR is due to decrease in interest expense and increase in EBITDA in absolute terms on account of increase in top line. Debt Service Coverage Ratio (DSCR) stood at 0.73 times as on March 31, 2020 (Provisional) as against 0.43 times as on March 31, 2019. Acuite believes that the financial profile of the NHSI is expected to be at similar levels over the medium term owing to moderate accretion to reserves and absence of any significant debt-funded capex plans.

• Working capital intensive operations

The working capital management of NHSI remained intensive, with GCA days of 162 days as on March 31, 2020 (Provisional) as against 286 days in FY2019. The GCA days improved on account of improvement in inventory days and debtor days. The inventory days stood at 77 days and 153 days as on March 31, 2020 (Provisional) and 2019, respectively. The debtor days stood at 25 days and 31 days as on March 31, 2020 (Provisional) and 2019, respectively. Creditor days stood at 40 days and 29 days as on March 31, 2020 (Provisional) and 2019 respectively. The bank lines remained utilized around 95 percent for the last six months ended December 2020. Acuite believes that NHSI's working capital cycle will remain intensive over the medium term.

• Declining profitability margins

The profitability margins of the firm have been declining Y-o-Y to secure orders from customers. EBITDA margins stood at 26.31 percent in FY2018 as against 14.50 percent in FY2019 and 12.26 percent in FY2020 (Provisional). The firm generated cash losses for the period FY2018-2020. PAT margins stood at (13.36) percent in FY2018 as against (20.83) percent in FY2019 and (5.79) percent in FY2020. Acuite believes that NHSI's profitability margins expected to be at similar levels.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Stretched

The liquidity position of the firm remained stretched with modest net cash accruals to service its debt obligations. The NCA's stood in the range of Rs.(0.32)-0.47 Cr through FY2018-2020 against the repayment obligation of Rs.0.55-1.40 Cr. The NCA's are expected to be in the range of Rs.0.90-2.80 Cr through FY21-23 against the repayment obligation of Rs.0.55-1.00 Cr. The current ratio stood at 1.73 times as on March 31, 2020 (Provisional). The cash and bank balance stood at Rs.0.12 Cr as on March 31, 2020 (Provisional). The working capital limits are almost 95 percent utilized for the last six months ended December 2020. Acuite believes that the liquidity profile to be adequate supported by accruals.

Outlook: Stable

Acuite believes that NHSI will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case NHSI registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	16.28	9.04
PAT	Rs. Cr.	(0.94)	(1.88)
PAT Margin	(%)	(5.79)	(20.83)
Total Debt/Tangible Net Worth	Times	14.68	6.95
PBDIT/Interest	Times	1.30	0.80

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide its press release dated Mar 16, 2020 had denoted the rating of NHS Industries as 'CRISIL D'; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

CARE, vide its press release dated Mar 09, 2020 had denoted the rating of NHS Industries as 'CRISIL D'; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any Material Covenants:

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
20-Feb-20	Proposed Long Term Loan	Long Term	9.93	ACUITE D Issuer not Co-operating
	Proposed Cash Credit	Long Term	2.00	ACUITE D Issuer not Co-operating
	Proposed Working Capital Demand Loan	Long Term	1.57	ACUITE D Issuer not Co-operating
10-Dec-18	Proposed Long Term Loan	Long Term	9.93	ACUITE D Issuer not Co-operating
	Proposed Cash Credit	Long Term	2.00	ACUITE D Issuer not Co-operating
	Proposed Working Capital Demand Loan	Long Term	1.57	ACUITE D Issuer not Co-operating
15-Feb-16	Proposed Long Term Loan	Long Term	9.93	ACUITE B/Stable (Assigned)
	Proposed Cash Credit	Long Term	2.00	ACUITE B/Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	1.57	ACUITE B/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B- / Stable (Upgraded)
Working capital demand loan	Nov 2019	11.00	Oct 2026	2.00	ACUITE B- / Stable (Upgraded)
Term Loan	Nov 2019	11.00	Oct 2022	0.40	ACUITE B- / Stable (Upgraded)
Term Loan	Nov 2019	11.00	Oct 2022	0.11	ACUITE B- / Stable (Upgraded)
Term Loan	Nov 2019	11.00	Apr 2027	6.59	ACUITE B- / Stable (Upgraded)
Term Loan	Nov 2019	11.00	Apr 2027	0.82	ACUITE B- / Stable (Upgraded)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	2.08	ACUITE B- / Stable (Upgraded)

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About Acuité Ratings & Research:

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