

Press Release

NHS Industries

April 18, 2022

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.50	ACUITE D Downgraded	-
Total Outstanding Quantum (Rs. Cr)	13.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE D**' (read as **ACUITE D**) from 'ACUITE B-' (read as ACUITE B minus) on the Rs. 13.50 crore bank facilities of NHS Industries (NHSI).

Rationale for rating downgrade:

The rating downgrade reflects continuous delays in servicing of term debt obligations by NHSI. The delays have been on account of high operating costs and finance costs commensurate to its income from operations.

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) Woven Bags and Fabric, located in Bangalore, Karnataka, India. The entity started its operation in November 2016.

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. NHSI generated total income of Rs.23.02 Cr in FY2021 as against Rs. 15.14 Cr in FY2020. Its total income stood at Rs. 36.83 Cr in FY2022 (Provisional). Acuite believes that NHSI will continue to benefit from its experienced management over the medium term.

Weaknesses

> Weak Financial Risk Profile

NHSI's financial risk profile is poor marked by very low net worth, very high gearing coupled with weak debt protection metrics and coverage indicators. NHSI's net worth stood at Rs.0.30 Cr as on March 31, 2021 as against Rs.0.66 Cr as on March 31, 2020. The networth declined due to capital withdrawal of 0.37 Cr in FY21. The net worth stood at Rs.0.64 as on March 31, 2022 (Prov). NHSI has been following aggressive leverage policy. As on March 31, 2021, the gearing and total outside liabilities to tangible net worth (TOL/TNW) stood at 48.24 times and 57.55 times respectively as against 22.35 times and 24.24 times respectively last year. The NCA/TD and interest coverage ratio for FY2021 stood at 0.03 times and 1.25 times respectively for FY2021 as against 0.03 times and 1.26 times respectively for FY2020. The debt service coverage ratio stood at 1.25 times in FY2021 as against 1.26 times in FY2020. The Debt-EBITDA ratio stands at 7.09 times in FY2021 as against 7.60 times in FY2020. The gearing and TOL/TNW stood at 23.27 times and 26.20 times respectively as on March 31, 2022 (Provisional). While the interest coverage and NCA/TD stood at 2.3 times and 0.12 times for FY2022 (Provisional). Acuité 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 plan.

> Working capital Intensive Operations

NHSI operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 133 days as on March 31, 2021 as against 136 days as on March 31, 2020. The inventory holding period has decreased to 56 days as on March 31, 2021 as against 88 days as on March 31, 2020. The inventory holding period reduced due to discounts offered by NHSI to its customers to sell off its inventory. The debtor days stood at 14 days as on March 31, 2021. The creditor days stood at 49 days as on March 31, 2021. The CC utilization is approximately 95% for the last six months ended February, 2022. Acuité believes that NHSI's working capital cycle will remain intensive over the medium term.

> Delays in servicing of debt obligations

There have been continuous delays in servicing of its term debt obligation of NHSI in the last few months. The delays have been on account of high operating costs and finance costs commensurate to its income from operations.

Rating Sensitivities

- Timely servicing of debt obligations

Material covenants

None

Liquidity Position: Poor

The company has poor liquidity position marked by low net cash accruals to its maturing debt obligations and recent delays in servicing of debt obligations. The cash accruals of NHSI is estimated to remain around Rs.1.8 Cr to Rs.2.21 Cr during 2022-23 against repayment obligations of around Rs.2-2.5 Cr during the same period. The entity's gross current asset (GCA) days stood at 133 days as on March 31, 2021. The average bank limit utilization stood at around 95 percent for six months ended February, 2022. The company maintained cash and bank balances of Rs.0.36 Cr as on 31 March 2021.

Outlook

Not Applicable

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	23.02	15.14
PAT	Rs. Cr.	(0.92)	(1.06)
PAT Margin	(%)	(4.01)	(6.99)
Total Debt/Tangible Net Worth	Times	48.24	22.35
PBDIT/Interest	Times	1.25	1.26

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 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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Jan 2021	Cash Credit	Long Term	1.50	ACUITE B- Stable (Upgraded from ACUITE D)
	Proposed Bank Facility	Long Term	2.08	ACUITE B- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	0.11	ACUITE B- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	0.40	ACUITE B- Stable (Upgraded from ACUITE D)
	Working Capital Demand Loan	Long Term	2.00	ACUITE B- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	6.59	ACUITE B- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	0.82	ACUITE B- Stable (Upgraded from ACUITE D)
20 Feb 2020	Proposed Cash Credit	Long Term	2.00	ACUITE D (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	9.93	ACUITE D (Issuer not co-operating*)
	Proposed Working Capital Demand Loan	Long Term	1.57	ACUITE D (Issuer not co-operating*)
10 Dec 2018	Proposed Working Capital Demand Loan	Long Term	1.57	ACUITE D (Issuer not co-operating*)
	Proposed Cash Credit	Long Term	2.00	ACUITE D (Issuer not co-operating*)

	Proposed Long Term Loan	Long Term	9.93	ACUITE D (Issuer not co-operating*)
15 Feb 2016	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE D Downgraded (from ACUITE B-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.08	ACUITE D Downgraded (from ACUITE B-)
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.11	ACUITE D Downgraded (from ACUITE B-)
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	6.59	ACUITE D Downgraded (from ACUITE B-)
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.82	ACUITE D Downgraded (from ACUITE B-)
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.40	ACUITE D Downgraded (from ACUITE B-)
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	2.00	ACUITE D Downgraded (from ACUITE B-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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