

Press Release

NIKUNJ INDUSTRIES

November 22, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.50 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) on the Rs. 6.50 crore bank facilities of **NIKUNJ INDUSTRIES**. The outlook is '**Stable**'.

Nikunj Industries (NI) is an Ankleshwar-based proprietorship concern established in 1998 by Mrs. Anju Dharmendra Phatnani. The firm manufactures synthetic filament textured yarn in the range of 20 denier and 30 denier used to manufacture hosiery items and readymade garments. The manufacturing facility is located at Ankleshwar, Gujarat and has installed capacity of 37.50 lakh tonnes per annum. The firm sells yarn to textile manufacturers and traders in Ankleshwar. The firm imports around 45 percent of its total raw material requirement (synthetic yarn) from South Korea with the remaining procured from the local market.

Key Rating Drivers

Strengths

- **Experienced management and established operational track record**

The firm is engaged in the textile industry for around two decades and has developed long standing relations with suppliers and customers. Further, the day-to-day operations are led by Mr. Dharmendra Phatnani who possesses more than two decades of experience in the textile industry. The extensive experience of the promoters is expected to strengthen the business risk profile of the firm over the medium term.

- **Healthy profitability**

The firm has reported EBITDA margins of 17.37 percent for FY2017 as against 13.43 percent in the previous year. The profit after tax (PAT) margin stood at 5.63 percent for FY2017 as against 5.16 percent in the previous year. The improvement in EBITDA margin is mainly on account of decline in other manufacturing costs alongwith selling and administration expenses in FY2017 over FY2016.

- **Moderate financial riskprofile**

The coverage indicators are healthy with Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) of 3.39 times for FY2017 (Provisional) compared to 3.62 times in the previous year. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.42 times as on 31 March, 2017 (Provisional). The adjusted gearing stood at 2.08 times as on 31 March, 2017 (Provisional). The adjusted networth stood at Rs. 3.00 crore as on 31 March, 2017 (Provisional) as against Rs. 2.36 crore in the previous year. For arriving at the adjusted tangible networth and gearing, SMERA has considered the interest-free unsecured loan of Rs. 0.89 crore from relatives as part of equity as the same is subordinated to bank debt. The Net cash accruals to total debt (NCA/TD) stood at 0.21 times for FY2017 (Provisional) as against 0.28 times in the previous year.

Weaknesses

- **Small scale of operations**

The scale of operations is small with operating income of Rs.10.29 crore for FY2017 (Provisional) as against Rs.10.60 crore in the previous year. The stagnancy in revenue is mainly on account of the firm's focus on

higher margin orders. However, going forward, SMERA expects the firm to register significant growth in revenue supported by increase in orders from customers. The firm has registered Rs. 9.50 crore during the period April, 2017 to October, 2017.

• Working capital intensive operations

The operations are working capital intensive marked by stretched gross current assets (GCA) of 117 days in FY2017 (Provisional) as against 93 days in FY2016. The high GCA days emanates from the inventory days of 57 and debtor days of 67 in FY2017. Further, the liquidity position of the firm is stretched with average cash credit limit utilisation at 90 percent during the last six months ended 30 Sept, 2017.

• Susceptibility of profitability to volatility in raw material prices, foreign exchange rate

The profit margins are susceptible to volatility in raw material (synthetic yarn) prices. The prices of the synthetic filament yarn are dependent on crude oil prices which are highly volatile. Further, the firm imports around 45 percent of its total purchases from South Korea and hence is susceptible to fluctuations in the forex rates in the absence of adequate hedging mechanism.

• Capital withdrawal risk

NI is exposed to risk of capital withdrawal considering its proprietorship constitution. However, no such instances have been observed during the period under study.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that the outlook of NI will remain stable over the medium term on account of its established track record and extensive experience of the management in the industry. The outlook may be revised to 'Positive' if the firm registers significant growth in revenue while maintaining healthy profitability and improvement in the liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or liquidity position due to higher than expected working capital borrowings or major debt funded capex plan.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), NI reported Net Profit of Rs.0.58 crore on operating income of Rs.10.29 crore compared with net profit of Rs.0.55 crore on operating income of Rs.10.60 crore in FY2015-16. The adjusted tangible net worth stood at Rs.3.00 crore as on 31 March, 2017 as against Rs.2.36 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***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	1.60	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.37	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.05	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.51	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.03	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.89	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.12	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.35	SMERA BB- / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.58	SMERA BB- / Stable

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ABOUT SMERA

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