

## Press Release

Nikunj Industries

D-U-N-S® Number: 86-011-2786

February 01, 2019



**Rating Reaffirmed**

<b>Total Bank Facilities Rated*</b>	Rs. 7.50 Cr. (Enhanced from Rs.6.50 cr.)
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 7.50 crore bank facilities of Nikunj Industries (NI). The outlook is '**Stable**'.

NI is an Ankleshwar-based proprietorship concern established in 1998 by Mrs. Anju Dharmendra Phatnani and operations are managed by Mr. 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). The firm imports around 35 percent of its total raw material requirement (synthetic yarn) from South Korea with the remaining procured from the local market.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of NI for arriving at the rating.

### **Key Rating Drivers**

#### **Strengths**

- Established track record and experienced promoter**

NI has been in textile industry since 1998 and has established track record of more than two decades in same line of business. The firm has been able to developed long standing relations with suppliers and customers over the years. 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 promoter is expected to strengthen the business risk profile of the firm over the medium term.

- Improving operating income**

The operating income of the firm is growing at compounded annual growth rate of 11.62 percent since 2016. The revenues have increased by 41.16 percent in FY2018 to Rs.14.53 crore from Rs.10.29 crore in FY2017. The company has achieved the revenue of Rs.12.15 crore till December 2019. Acuité expects improvement in the firm's scale of operations on account of significant growth in revenue supported by increase in orders from customers.

- Moderate financial risk profile**

The financial risk profile stood moderate marked by net worth of Rs.3.36 crore as on 31 March, 2018 as compared to Rs.2.61 crore as on 31 March, 2017. The net worth includes unsecured loan of Rs.0.52 crore from promoter. The gearing (debt-equity) ratio stood at 1.69 times as on 31 March, 2018 as compared to 2.53 times as on 31 March, 2017. The interest coverage ratio (ICR) stood comfortable at 3.67 times in FY2018 as compared to 3.56 times in FY2017. The debt service coverage ratio (DSCR) stood at 1.81 times for FY2018 and 1.85 times for FY2017.

#### **Weaknesses**

- Susceptibility of profitability to volatility in raw material prices and foreign exchange rate**

NI operates in the textile industry which is cyclical and the main raw material used is synthetic yarn for production. The prices of synthetic yarn are volatile in nature and have an impact on operating and profit margins of the firm. The prices of the synthetic filament yarn are dependent mainly on crude oil prices which are highly volatile. Further, the firm imports around 35 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.

**Liquidity Position**

NI has average liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The firm had cash accruals of Rs.1.72 crore in FY2018 and Rs.1.31 crore in FY2017. The company's operations are moderately intensive as marked by gross current asset (GCA) of 97 days in FY2018 and 122 days in FY2017. This has led to moderate reliance on working capital borrowings, the cash credit limit remains utilised at ~81.42 percent during the last six months period ended December 2018. The current ratio stood low at 1.04 times as on March 31, 2018. Acuité believes that the liquidity of the firm is likely to remain modest over the medium term on account of moderate cash accrual and no major repayments over the medium term.

**Outlook: Stable**

Acuité 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. The outlook may be revised to 'Positive' if the firm registers significant growth in revenue while sustaining its margins 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**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.53	10.29	10.60
EBITDA	Rs. Cr.	2.37	1.77	1.42
PAT	Rs. Cr.	0.84	0.59	0.54
EBITDA Margin	(%)	16.30	17.17	13.38
PAT Margin	(%)	5.82	5.73	5.11
ROCE	(%)	16.35	14.45	31.11
Total Debt/Tangible Net Worth	Times	1.69	2.53	1.64
PBDIT/Interest	Times	3.67	3.56	3.61
Total Debt/PBDIT	Times	2.39	3.63	2.62
Gross Current Assets (Days)	Days	97	122	93

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

Not Applicable

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

**Note on complexity levels of the rated instrument**

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
22-Nov-2017	Cash Credit	Long Term	1.60	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.37	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.05	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.51	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.03	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.89	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	1.12	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	1.35	ACUITE BB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.58	ACUITE BB- / Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.62	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.96	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.14	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.34	ACUITE BB- / Stable (Reaffirmed)

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