

Press Release

NKCM Spinners Private Limited

August 20, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 39.14 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long term rating of '**ACUITE BB**' (read as **ACUITE BB**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 39.14 crore bank facilities of NKCM SPINNERS PRIVATE LIMITED (NSPL). The outlook is '**Stable**'.

Incorporated in 2008, NSPL manufactures 100 per cent viscose staple fibre of counts ranging from 20s to 60s, cotton yarn and blends of cotton/polyester at Namakkal in Tamil Nadu. The company, led by Managing Director Mr. Narendra Kumar Nakhat, has installed capacity of 15,160 spindles.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of NSPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The company was incorporated in 2008 by merging partnership firms namely NKCM Spinners, Narendra Kumar Cotton Mills and NKCM Textiles. The partnership firms were formed in 2002. NSPL is promoted by Mr. Narendra Kumar Nakhat, who has almost 25 years of experience in the textile industry. He has been a wholesale distributor of yarn in the state of Tamil Nadu. Acuite believes that NSPL will benefit from experienced management which will help the company to maintain long standing relations with its customers and suppliers.

• Improving revenues and profitability

NSPL showed marginal improvement in revenues marked by operating income of Rs.171.85 crore in FY2019 (Provisional) as against Rs.169.62 crore in FY2018 and Rs.154.90 crore in FY2017. The company's operating margins improved to 5.50 per cent in FY2019 (Provisional) as against 4.03 per cent in FY2018 and 5.04 per cent in FY2017. Further, the company reported Profit after Tax (PAT) margins of 0.46 per cent in FY2019 (Provisional) as against 0.30 per cent in FY2018 and 0.20 per cent in FY2017. Acuite believes that the company's ability to register significant growth in its revenues, while improving its profitability would be key rating sensitivity.

Weaknesses

• Average financial risk profile

The company has average financial risk profile marked by moderate net worth, gearing and debt protection measures. The tangible net worth of the company stood moderate at Rs.24.78 crore as on March 31, 2018 against Rs.24.00 crore as on March 31, 2017. The net worth includes unsecured loans of Rs.3.11 crore in FY2018 from promoters which are subordinated to bank debt. Hence, Acuite has treated them as quasi equity. The gearing (debt-equity) remained average at 1.46 times as on March 31, 2019 (Provisional) against 1.48 times as on March 31, 2018. The total debt outstanding of Rs.36.14 crore as on 31 March, 2019 (Provisional) consist of working capital borrowing of Rs.28.88 crore, term loan of Rs.4.18 crore and unsecured loans of Rs.3.08 crore. ICR stood at 1.73 times and DSCR stood at 1.20 times in FY2019 (Provisional). Total outside liabilities to tangible net worth stood at 2.05 times as on 31 March, 2019 (Provisional). Net Cash Accruals to Total Debt (NCA/TD) stood at 0.10 times for FY2019 (Provisional). Return on Capital Employed (RoCE) stood at 11.11 per cent in FY2019 (Provisional). Acuite believes that the company's ability to improve its net worth along with debt protection metrics will remain key rating sensitivity.

• Moderate working capital operations

The company has moderate working capital operations marked by Gross Current asset (GCA) of 127 days for FY2019 (Provisional) as against 120 days for FY2018. This is on account of collection period of 87 days and inventory holding period of 24 days in FY2019 (Provisional). Acuite believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

Liquidity Position:

The company has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. NSPL generated cash accruals of Rs.2.5-3.7 crore during the last three years through 2017-19 (Provisional), while the maturing debt obligations were in the range of Rs.2.25 crore over the same period. The cash accruals are estimated to be in the range of Rs.3.5-5.5 crore during 2019-21, while its repayment obligations are at Rs.2.4-2.5 crore. NSPL maintains cash and bank balances of Rs.0.08 crore as on March 31, 2019 (Provisional). The current ratio stood moderate at 1.30 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term.

Outlook: Stable

Acuite believes that NSPL's outlook will remain 'Stable' over the medium term from its experienced management along with improvement in revenues and profitability. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability and financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	171.85	169.62	154.90
EBITDA	Rs. Cr.	9.46	6.84	7.81
PAT	Rs. Cr.	0.80	0.51	0.31
EBITDA Margin	(%)	5.50	4.03	5.04
PAT Margin	(%)	0.46	0.30	0.20
ROCE	(%)	11.11	7.83	9.18
Total Debt/Tangible Net Worth	Times	1.46	1.48	1.57
PBDIT/Interest	Times	1.73	1.70	1.47
Total Debt/PBDIT	Times	3.77	5.03	4.65
Gross Current Assets (Days)	Days	127	120	128

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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. Cr.)	Ratings/Outlook
25-Feb-2019	Bank Guarantee	Short Term	0.64	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	5.50	ACUITE BB (Reaffirmed)
15-Dec-2017	Cash Credit	Long Term	30.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	5.50	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.64	ACUITE A4+ (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	30.00	ACUITE BB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.64	ACUITE BB / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.64	ACUITE A4+ (Reaffirmed)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	3.86	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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