

Press Release

NITESH FASHION PRIVATE LIMITED

December 27, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 14.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs. 14.50 crore bank facilities of NITESH FASHION PRIVATE LIMITED. The outlook is '**Stable**'.

The company is engaged in manufacturing, trading and export of garments and fabrics. Mr. Arvind Kothari established the firm - M/s Mahavirkumar Gautamchand & Co (MG&Co) in 2003 as a proprietorship concern which was later incorporated into a private limited company in 2011 as Nitesh Fashion Private Limited (NFPL) with an objective to expand operations. The company is currently being actively managed by Mr. Pradeep Kothari, Mr. Nitesh Kothari and Mr. Sanjay Kothari who have over two decades of experience in the textile industry. NFPL exports women's apparels and men's shirtings to countries like Europe, USA, and the MENA (Middle East & North Africa) region. Its manufacturing unit is located at Bhiwandi with an installed capacity of 35 weaving machines delivering a production of 1.10 lakh meter per month.

Key Rating Drivers

Strengths

- **Experienced Management Team**

The company stands to benefit from its management's experience of over two decades in the textile industry.

- **Diversified Client Portfolio**

The company has a diversified base of domestic and overseas (across Europe, USA, and MENA region) clients which insulates against client concentration risk.

Weaknesses

- **Average financial risk profile**

The company has an average financial risk profile marked by low networth of Rs. 2.45 crore as on 31 March, 2017 as compared to Rs.1.50 crore as on 31 March, 2016. The debt to equity ratio also stood high at 9.63 times as on 31 March, 2017 as compared to 14.00 times as on 31 March, 2016. The company has an average interest coverage ratio (ICR) at 1.21 times for FY2017 compared to 1.18 times for FY2016.

- **Working capital intensive nature of operations**

The company's operations are working capital intensive marked by Gross current assets (GCA) of 234 days for FY2017 as against 201 days for FY2016. GCA days are high mainly on account of high receivable days of 134 in FY2017 as compared to 95 in FY2016. Further, utilization of working capital facility stood at 95 per cent for six months ending November 2017.

- **Forex fluctuation risk**

NFPL draws 30.00 per cent of its revenue from exports. This exposes it to the risk associated with currency fluctuations, although the company executes hedges to protect against the same.

- **Highly fragmented and competitive industry**

NFPL operates in a highly fragmented industry with limited entry barriers, wherein the presence of a large number of unorganized players limits its bargaining power with customers. The company faces competition in domestic as well as overseas markets which could impact its operating margins and profitability.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of NFPL.

Outlook: Stable

SMERA expects NFPL's outlook to remain stable owing to promoters' experience in the textile industry. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially while maintaining its operating profitability. Conversely, the outlook may be revised to 'Negative' in case of weakening of operating margins or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	56.99	53.59	50.82
EBITDA	Rs. Cr.	3.00	3.37	3.10
PAT	Rs. Cr.	0.20	0.21	0.04
EBITDA Margin (%)	(%)	5.26	6.28	6.09
PAT Margin (%)	(%)	0.35	0.39	0.07
ROCE (%)	(%)	11.39	14.06	26.00
Total Debt/Tangible Net Worth	Times	9.63	14.00	16.02
PBDIT/Interest	Times	1.21	1.18	1.10
Total Debt/PBDIT	Times	7.87	6.25	6.72
Gross Current Assets (Days)	Days	234	201	214

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>
- Trading Entities - <https://www.smera.in/criteria-trading.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	14.50	SMERA B+ / Stable

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ABOUT SMERA

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