

Press Release

NITESH FASHION PRIVATE LIMITED

February 28, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 14.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Downgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B**' (**read as ACUITE B**) from **ACUITE B+** (**read as ACUITE B plus**) to the Rs. 14.50 crore bank facilities of NITESH FASHION PRIVATE LIMITED (NFPL). The outlook is '**Stable**'.

Rating downgrade reflects more-than-expected decline in scale of operations and profitability. Profit after Tax (PAT) has declined to Rs.0.11 crores in FY2018 from Rs.0.20 crores in FY2017 mainly on account of increase in finance cost. Further, the company has registered revenues of around Rs.45.00 crore and it is expected to generate revenues around Rs.55.00 crore for FY2019. However, the rating is supported by experienced management.

NFPL 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. NFPL exports women's apparels and men's shirting to countries including Europe, USA, and the MENA (Middle East & North Africa) region. Its manufacturing unit is located at Bhiwandi in Mumbai (Maharashtra) with an installed capacity of 35 weaving machines, delivering a production of 1.10 lakh meter per month.

Analytical Approach

Acuité has considered standalone business and financial risk profile of NFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience management**

The company is currently being promoted by its Managing Director, Mr. Pradeep Kothari along with other Directors, Mr. Nitesh Kothari, Mr. Ankeet Kothari, Mr. Sanjay Kothari and Mr. Bhavesh Kothari who possess experience of over a decade in textile industry. The extensive experience has enabled the company to forge healthy relationships with customers and suppliers. Acuité believes that NFPL will continue to benefit from its experienced management and established relationships with customers.

- **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

- **Stagnant scale of operations and decline profitability**

The revenues of the company have remained stagnant marked by operating income of Rs.58.28 crore in FY2018 as against operating income of Rs.56.99 crore in FY2017 and Rs.53.59 crore in FY2016. Further, the Profit after Tax (PAT) declined to 0.19 percent in FY2018 from 0.35 percent in FY2017 and 0.39 in FY2016.

- **Average financial risk profile**

The financial risk profile is average marked by moderate net worth, gearing and debt protection measures. The net worth of the company is moderate at Rs.9.06 crore as on 31 March, 2018 as against Rs.8.76 crore as on 31 March, 2017. The gearing (debt to equity) of the company has stood moderate at 1.86 times as on March 31, 2018 as against 1.97 times as on March 31, 2017. Total debt of Rs.16.87 crore includes long term borrowings of Rs.2.40 crore, working capital facilities of Rs.14.35 crore and unsecured loans of Rs.0.12 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.22 times as on 31 March, 2018 as against 3.47 times as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 1.13 times in FY2018 as against 1.21 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.02 times as on 31 March, 2018 as against 0.02 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.10 times in FY2018 as against 1.17 times in FY2017.

- **Intensive working capital operations**

NFPL has intensive working capital operations marked by high Gross Current Assets (GCA) of 223 days in FY2018 as against 233 days in FY2017. The company maintains inventory of around 120 days on an average and extends clean credit of around 90 to 120 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 105 and 120 days in FY2018 as against 120 and 134 days in FY2017, respectively. As a result, the average utilisation of bank limits stood at ~ 80 per cent in the last six months ending January, 2019. Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of period in which inventory is supposed to be maintained and the credit terms provided to debtors.

- **Highly fragmented and competitive industry**

NFPL operates in a highly fragmented industry with limited entry barriers, wherein the presence of a large number of unorganised 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.

Liquidity Position

NFPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.44 to 0.32 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.27 – 0.48 crore over the same period. The cash accruals of the group are estimated to remain around Rs.0.46 to 0.73 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 0.48 to 0.26 Crore. The company's operations are working capital intensive as marked by high gross current asset (GCA) days of 223 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the group remains utilized at ~80 percent during the last 6 months period ended January 2019. The company maintains unencumbered cash and bank balances of Rs.0.06 crore as on March 31, 2018. The current ratio of the group stands at 1.36 times as on March 31, 2018.

Outlook: Stable

Acuité believes that NFPL will maintain 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in NFPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	58.28	56.99	53.59
EBITDA	Rs. Cr.	3.59	3.00	3.37
PAT	Rs. Cr.	0.11	0.20	0.21
EBITDA Margin	(%)	6.16	5.26	6.28
PAT Margin	(%)	0.19	0.35	0.39
ROCE	(%)	13.01	11.39	27.84
Total Debt/Tangible Net Worth	Times	1.86	1.97	1.80
PBDIT/Interest	Times	1.13	1.21	1.18
Total Debt/PBDIT	Times	4.70	5.77	4.30
Gross Current Assets (Days)	Days	223	233	201

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

Not Applicable

Any other information

"Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups"

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
27-Dec-2017	Cash Credit	Long Term	14.50	ACUITE B+ / Stable (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	14.50*	ACUITE B / Stable (Downgraded from ACUITE B+/Stable)

*sublimit to ODBD Rs.8.00 crore, PC/PCFC Rs.6.00 crore and FDB/FBD/BRD Rs.2.50 crore.

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About Acuité Ratings & Research:

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