

Press Release

The National Small Industries Corporation Limited

June 21, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 1000.00 Cr.
Short Term Rating	ACUITE A1+

* Refer Annexure for details

Corrigendum: In the Press Release published on January 25, 2018 the 'Total Debt /Tangible net worth' and 'Total Debt/PBDIT' mentioned were erroneous. The revised ones are incorporated in this press release.

Rating Rationale

Acuite has assigned short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs 1000.00 crore Commercial Paper issue of The National Small Industries Corporation Limited (NSIC).

NSIC, a public sector company established in 1995 is a Government of India-owned enterprise set up under Ministry of Micro, Small and Medium Enterprises. The ISO 9001-2008 certified company lays much emphasis on growth and development of MSMEs across India through various schemes focusing on areas like procurement of raw material, marketing, credit, skill development and technology among others. It operates through a countrywide network of more than 150 offices with 57 accounting branches and seven technical centres in the country. Apart from commercial activities, it also undertakes promotional activities to achieve its objective of promoting and nurturing the Micro, Small and Medium Enterprises sector. NSIC is registered as an NBFC- ND- SI with Reserve Bank of India (RBI) and acts as a nodal office for several schemes of the Ministry of MSME.

Key Rating Drivers

Strengths

- **Pivotal agency backed by Government of India for the development of MSME sector:**

The Government of India (GoI) has been focusing on the MSME sector in view of its importance to the overall economy. The sector accounts for 40 per cent of the total exports, around 45 per cent of the manufacturing output and contributes nearly eight percent to GDP. NSIC, a nodal agency for GoI, plays a crucial role in promoting and supporting the MSME segment through a combination of commercial activities. NSIC is currently headed by Mr. Ravindra Nath (Chairman and MD), a Chartered accountant with over three decades of experience in finance and policy formation. He is ably supported by other board members including nominees of GoI and other experienced professionals. Apart from operational and management support, NSIC also benefits from being a 100 percent government owned entity providing easy access to funding. Apart from regular bank lines, it has also been able to raise long term funds for up to 40 years from foreign institutions such as KfW, Germany.

ACUITE believes that NSIC will continue to play a major role in the development of the MSME segment and benefit from the strong GoI support.

- **Diversified revenue streams, healthy asset quality and comfortable liquidity profile:**

NSIC provides MSMEs with integrated support by focusing on raw material assistance, marketing support, credit support, technology and training activities. NSIC derived ~77.00 percent of its operating revenue for FY2017. Other revenue streams include interest earned

through credit facilities extended for raw material procurement (~17.00 percent), services provided such as training programmes and exhibitions (3.00 percent); processing fees (~3.00 percent). Further, its income is augmented by rental income and grants received from the government for implementing promotional schemes.

NSIC follows a business model wherein it extends advances to MSMEs for procurement of raw material against bank guarantees. As per its credit policy, NSIC advances loans of up to 95 percent of the value of the bank guarantee. Since the exposures are covered by bank guarantees, the overall asset quality has been generally satisfactory except for certain recent instances of delinquencies arising due to operational inconsistencies. The exposure to a single borrower is up to maximum of Rs 5 crore with 90 days maturity and is rolled over subject to satisfactory credit discipline on the part of the borrower.

Since NSIC's exposures are mostly short term in nature its borrowings are skewed mainly towards short term funding. A major portion of the resources are raised through short term bank lines from a mix of foreign and domestic banks. NSIC has sanctioned limits of Rs.4325 crore as on December 2017 of which more than Rs 2000 crore is unutilised. The unutilised lines provide adequate liquidity buffer.

ACUITE believes that NSIC will maintain a stable credit profile on the back of its diversified product basket, prudent policy of lending against bank guarantee and availability of adequate liquidity cushion.

Weaknesses

- **Future growth prospects linked to Gov support amidst increasing competition in key revenue segments :**

NSIC largely depends on government's budgetary allocation for its equity grants and subsidies for implementing various government schemes. The quantum of grants and subsidies from the government is a key determinant of its operational performance. Further, NSIC derives major part of its revenue through its raw material assistance scheme. It acts as an aggregator procuring raw material such as coal, iron, steel, cement and paraffin among others from government companies including Coal India Limited, Steel Authority of India Limited, Hindustan Copper Limited in bulk and provides the same to MSMEs at competitive rates. The emergence of private players with similar business models adds to the competitive intensity of this segment. The increasing number of banks and NBFCs focusing on SME lending further adds to the increasingly competitive landscape. NSIC's operating profit stood at Rs 165.07 as on March 2017 crore as against Rs 156.95 crore as on March 2016 indicating moderate growth. Against the backdrop of increasing competition in its key revenue segments like raw material procurement, NSIC will have to depend on other government funded schemes to scale up its revenue and profitability.

Hence, ACUITE believes that the level of government support will be a key driving force for NSIC's future growth.

Analytical Approach

ACUITÉ has considered the standalone business and financial risk profile of NSIC.

Outlook: Not Applicable

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	2,376.45	2,681.52	2,599.11
EBITDA	Rs. Cr.	358.74	373.55	346.52
PAT	Rs. Cr.	106.40	101.46	88.60

EBITDA Margin	(%)	15.10	13.93	13.33
PAT Margin	(%)	4.48	3.78	3.41
ROCE (%)	(%)	11.78	12.40	22.90
Total Debt/Tangible Net Worth	Times	2.74	3.19	3.26
PBDIT/Interest	Times	1.86	1.75	1.69
Total Debt/PBDIT	Times	6.16	6.40	6.71
Gross Current Assets (Days)	Days	491	447	426

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Non Banking Financing Entities - <https://www.acuite.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Earmarked Commercial Paper (Proposed)	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITÉ A1+

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in</p> <p>Swati Banthia Analyst - Rating Operations Tel: 033-66201211 swati.banthia@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in</p>

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.