



## Press Release

### The National Small Industries Corporation Limited

October 15, 2018

#### Rating Reaffirmed & Assigned

<b>Instruments Rated*</b>	Rs. 1200.00 Cr.
<b>Short Term Rating</b>	ACUITE A1+ (Reaffirmed & Assigned)

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned short term rating of '**ACUITE A1+** (read as ACUITE A one plus)' on the Rs.200.00 Cr commercial paper of The National Small Industries Corporation Limited (NSIC).

Acuité has reaffirmed short term rating of '**ACUITE A1+** (read as ACUITE A one plus)' to the Rs. 1000.00 Cr. commercial paper of The National Small Industries Corporation Limited (NSIC).

NSIC, established in 1955, is a Government of India-owned enterprise, set up under the aegis of Ministry of Micro, Small and Medium Enterprises (MSME Ministry). The ISO 9001-2008 certified company lays 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 7 technical centres in the country. Apart from commercial activities, it also undertakes promotional activities to achieve its objective of promoting and nurturing the MSME 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.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of NSIC. The benefits arising from GoI's ownership and the pivotal role played by NSIC in the development of the MSME sector has been factored in while arriving at the rating.

## Key Rating Drivers

### **Strengths**

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

MSME sector is of significant importance to the Government of India (GoI) given the pivotal role played by the sector in India's economic growth. The sector accounts for 45 per cent of the overall exports from India, around 45 per cent of the manufacturing output and contributes nearly eight percent to GDP. NSIC plays a crucial role in promoting and supporting the MSME segment through a combination of commercial activities and implementing government's schemes for the sector. 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 based on sovereign guarantees. Acuité 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 integrated support to MSMEs by focusing on raw material assistance, marketing support, credit support, technology and training activities. NSIC derived ~79 percent of its operating revenue from sale of products and services during FY18. Other revenue streams include interest earned through credit facilities extended for raw material procurement which accounted for ~14 percent, services provided such as training programme and exhibitions ~2 percent; processing fees ~2 percent. Further, its income is supported by grants received from the government for implementing promotional schemes.

NSIC 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. The overall portfolio was Rs. 2716.65 Cr as on March 31, 2018 compared to Rs.2807.67 Cr as March 31, 2017. Since the exposures are covered by bank guarantees, overall asset quality has been 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 borrowers' satisfactory credit discipline. Since the exposures are mostly short term in nature, borrowings are also mainly short term borrowings. 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.4000 Cr as on September 2018 of which roughly 50 percent remains unutilized. The unutilized 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 GoI 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 total income\* stood improved at Rs 412.12 Cr. as on March 2018 as against Rs. 356.28 Cr. as on March 2017. There was a moderation in the company's profitability on account of increase in overall operating expenses attributed to the increase in employee cost (on account of 3<sup>rd</sup> Pay Revision). 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.

\*Total Income is calculated as sale of products + sale of services + interest income + processing fees earned + grants & subsidies of revenue nature + other operating revenues less value of goods purchased for trading activity - interest expense (inclusive of bank charges)

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	3,442	3,477	3,499
Total Income*	Rs. Cr.	412	356	388
PAT	Rs. Cr.	99	106	101
Net Worth	Rs. Cr.	946	828	757
Return on Average Assets (RoAA)	(%)	2.9	3.1	3.0
Return on Net Worth (RoNW)	(%)	11.2	13.4	14.0
Total Debt/Tangible Net Worth (Gearing)	Times	2.2	2.7	3.2
Gross NPA	(%)	NA	NA	NA
Net NPA	(%)	NA	NA	NA

\*Total Income is calculated as sale of products + sale of services + interest income + processing fees earned + grants & subsidies of revenue nature (Net) + other operating revenues less value of goods purchased for trading activity - interest expense (inclusive of bank charges)

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

None

## Any other information

None

### Applicable Criteria

- Non-Banking Financing Entities- <https://www.acuite.in/view-rating-criteria-10.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-17.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
21-Jun-18#	Commercial Paper	Short Term	1000.00	ACUITE A1+ (Assigned)
25-Jan-18	Commercial Paper	Short Term	1000.00	ACUITE A1+ (Assigned)

#Corrigendum: Kindly refer press release dated 21-Jun-18 for further details.

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Assigned)
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE A1+ (Reaffirmed)

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**About Acuité Ratings & Research:**

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