

Press Release

National Small Industries Corporation Limited

October 01, 2019

Rating Reaffirmed



Total Facilities Rated*	Rs. 1200 Cr.
Short Term Rating	ACUITE A1+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 1200.00 cr. commercial Paper program of National Small Industries Corporation Limited (NSIC).

NSIC, established in 1955, is a Government of India undertaking, 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 centers 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 agency for several schemes of the Ministry of MSME.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of NSIC. The rating factors in the strategic importance of NSIC in development of the MSME sector and Government of India's ownership.

Key Rating Drivers

Strengths

- **Strong backing by Government on India for development of 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 critical 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.

Acuite believes that NSIC will continue to play a key role in the development of the MSME segment and benefit from the strong GoI's support

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

NSIC provides integrated support to MSMEs by providing raw material assistance, marketing support, credit support, and technology and training activities. NSIC derived ~79 per cent of its operating revenue from sale of products and services during FY19 (Provisional). Other revenue streams include interest earned through credit facilities extended for raw material procurement, which accounted for ~13 per cent, services provided such as training program and exhibitions ~3 per cent; processing fees ~2 per cent. 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 per cent of the value of the bank guarantee. The overall portfolio stood at Rs. 2653.6 Cr. as on March 31, 2019 as against 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 bank limits of Rs.4025 Cr. as on June 30, 2019, which is 46 per cent utilized on an average of 10 months ended July 31, 2019. The unutilized lines provide adequate liquidity buffer.

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

Weaknesses

- **Future growth prospects linked to Govt 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 reported total income* of Rs 405 Cr. for FY2019 (Provisional) as against Rs. 412.12 Cr. as on March 2018. 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 3rd 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.

Rating Sensitivities

- Changes in regulatory environment

Material Covenants:

None

Liquidity position: Strong

NSIC's liquidity profile is strong supported by its ability to raise resources for various tenures. NSIC has a Rs. 1200 Cr. Commercial paper borrowings and avails cash credit of Rs. 4025 Cr., which is on an average of 10 months ended July 30, 2019 46 per cent utilized.

About the Rated Entity - Key Financials

	Unit	FY19 (Provi.)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	3168.59	3,442.49	3,476.72
Total Income*	Rs. Cr.	405.10	412.12	356.28
PAT	Rs. Cr.	79.52	99.41	106.40
Net Worth	(%)	971.87	946.04	827.64
Return on Average Assets (RoAA)	(%)	2.41	2.87	3.05
Return on Average Net Worth (RoNW)	(%)	8.29	11.21	13.42
Total Debt/Tangible NetWorth (Gearing)	Times	1.81	2.23	2.74
Gross NPA	Times	NA	NA	NA

Net NPA	Times	NA	NA	NA
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*Total Income is calculated as sale of products + sale of services + interest income + processing fees earned + grants & subsidies of revenue nature + other operating revenues - 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-14.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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
15- Oct-2018	Commercial Paper	Short Term	200.00	ACUITE A1+ (Assigned)
	Commercial Paper	Short Term	1000.00	ACUITE A1+ (Reaffirmed)
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+ (Reaffirmed)
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE A1+ (Reaffirmed)

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About Acuite Ratings & Research:

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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