

## Press Release

### The National Small Industries Corporation Limited

September 17, 2021

#### Rating Reaffirmed



<b>Total Facilities Rated*</b>	Rs. 1200.00 Cr.
<b>Short Term Rating</b>	ACUITE A1+ (Reaffirmed)

\*Refer annexure for details

#### Rating Rationale

Acuité has reaffirmed the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 1200.00 Cr. commercial paper program of The National Small Industries Corporation Limited (NSIC).

The rating factors in the support that NSIC receives from Government of India (GoI) by the way of 100 percent ownership. NSIC plays an important role as a nodal government agency and provides support to MSME's. The rating further factors in comfortable capitalization and liquidity profile of NSIC. NSIC's revenue stream remains diversified majorly comprising of sale of goods and services and interest income from credit facilities extended to MSME's. The rating considers NSIC's secured nature of loan assets which are backed by Bank Guarantees. Going forward, continued GoI support, business growth and profitability would be key credit monitorable.

#### About NSIC

NSIC, established in 1955, is a Government of India undertaking, with registered office in New Delhi and was set up under the aegis of Ministry of Micro, Small and Medium Enterprises (MSME Ministry). The ISO 9001-2015 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 160 offices 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 agency for several schemes of the Ministry of MSME.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

- Strong backing by Government of 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 ~48 per cent of the overall exports from India, ~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.

Acuité 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 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 ~82 per cent of its operating revenue from the sale of products and services during FY2021 (provisional). Other revenue streams include interest earned through credit facilities extended for raw material procurement, which accounted for ~12 percent; 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. 2,306.75 Cr. as on March 31, 2021 from Rs. 2,261.78 Cr. as on March 31, 2020. 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 a maximum of Rs 8 Cr. 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 is raised through short term bank lines from a mix of foreign and domestic banks. NSIC has bank limits of Rs. 3,800 Cr. of which ~35 percent was utilized as on August 31, 2021. 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, a prudent policy of lending against bank guarantee and availability of adequate liquidity cushion.

#### **Weaknesses**

##### • **Future growth prospectus linked to Gov support amidst increasing competition in key revenue segments**

NSIC largely depends on government's budgetary allocation for promotion of various government schemes. The quantum of grants and subsidies from the government is a key determinant of its operational performance. Further, NSIC derives a 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. 415.49 Cr. for FY2021 (provisional) as against Rs 446.19 Cr. for FY2020.

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 Sensitivity**

- Continued Gov support
- Capitalization and liquidity buffers
- Changes in the regulatory environment

#### **Material Covenants**

None

#### **Liquidity: Strong**

NSIC's liquidity profile is strong supported by its ability to raise resources for various tenures. As per ALM statement as on March 31, 2021 no negative cumulative mismatch were reported by NSIC in the near to medium term buckets. NSIC has working capital facilities of Rs. 3,800 Cr. with average utilization of ~35 percent for month ended August 31, 2020. NSIC also has commercial paper borrowings of Rs. 1,200 crore which it avails at regular intervals. The company has cash and cash equivalents of Rs. 93.79 as on March 31, 2021.

## Outlook: Not Applicable

## About the Rated Entity - Key Financials

Particulars	Unit	FY21 (Provisional)	FY20 (Actual)
Total Assets	Rs. Cr.	2965.23	3119.60
Total Income*	Rs. Cr.	415.49	446.19
PAT	Rs. Cr.	92.42	99.19
Networth	Rs. Cr.	1077.79	1019.61
Return on Average Assets (RoAA)	(%)	3.04	3.19
Return on Net Worth (RoNW)	(%)	8.81	10.18
Total Debt/Tangible Net Worth (Gearing)	Times	1.33	1.59
Gross NPA's	(%)	5.19	12.10
Net NPA's	(%)	0.27	7.97

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

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

Not Applicable

## Any other information

Not Applicable

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Commercial Paper - <https://www.acuite.in/view-rating-criteria-54.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Sep-2020	Commercial Paper	Short Term	200.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper	Short Term	1000.00	ACUITE A1+ (Reaffirmed)
01-Oct-2019	Commercial Paper	Short Term	200.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper	Short Term	1000.00	ACUITE A1+ (Reaffirmed)
15-Oct-2018	Commercial Paper	Short Term	200.00	ACUITE A1+ (Assigned)
	Commercial Paper	Short Term	1000.00	ACUITE A1+ (Reaffirmed)

**\*Annexure – Details of instruments rated**

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