



Press Release
The National Small Industries Corporation Limited
September 15, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Commercial Paper (CP)	1200.00	-	ACUITE A1+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	1200.00	-	-

Rating Rationale

Acuite has reaffirmed its 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 the company

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 9001-2015 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

Acuite 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

Strength

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 ~40 per cent of the overall exports from India, ~45 per cent of the manufacturing output and contributes nearly 30 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 Govt'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 ~83 per cent of its operating revenue from the sale of products and services during FY2023. Other revenue streams include interest earned through credit facilities extended for raw material procurement, which accounted for ~10 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. 2,893.56 Cr. as on March 31, 2023 as against Rs. 2,475.83 Cr. as on March 31, 2022. Since the exposures are covered by bank guarantees, overall asset quality has been satisfactory. 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. 4000 Cr. of which ~40 percent was utilized as on June, 2023. The unutilized lines provide adequate liquidity buffer.

Acuité 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.

Weakness

Future growth prospectus linked to Govt 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. 468.01 Cr. for FY2023 as against Rs 422.27 Cr. for FY2022.

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

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivity

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

All Covenants

None

Liquidity Position Strong

NSIC's liquidity profile is strong supported by its ability to raise resources for various tenures. As per ALM statement as on June 30, 2023 no negative cumulative mis match were reported by NSIC in the near to medium term buckets. NSIC has working capital facilities of ~Rs. 4000 Cr. with average utilization of ~40 percent for month ended June 30, 2023. NSIC also has commercial paper borrowings of Rs. 1,200 crore. The company has cash and cash equivalents of Rs. 88.96 as on March 31, 2023.

Outlook: Not applicable

Other Factors affecting Rating

Not applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	3271.77	3148.13
Total Income*	Rs. Cr.	468.01	422.27
PAT	Rs. Cr.	110.48	108.23
Net Worth	Rs. Cr.	1252.35	1172.61
Return on Average Assets (RoAA)	(%)	3.44%	3.54%
Return on Average Net Worth (RoNW)	(%)	9.11%	9.62%
Debt/Equity	Times	1.24	1.30

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

None

Any other information

During the time of review, Acuite has received the GNPA and NNPA in absolute terms. The GNPA for FY23 stood at Rs. 109.70 crore (FY22: Rs. 113.48 crore) and NNPA for FY23 stood at Rs. 0 (FY22: Rs. 0). However, Acuite has not received the GNPA and NNPA percentages for FY23.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Commercial Paper: <https://www.acuite.in/view-rating-criteria-54.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria “Complexity Level Of Financial Instruments” on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Sep 2022	Proposed Commercial Paper Program	Short Term	1000.00	ACUITE A1+ (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)
17 Sep 2021	Commercial Paper Program	Short Term	1000.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)
16 Sep 2020	Commercial Paper Program	Short Term	1000.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	1000.00	ACUITE A1+ Reaffirmed
Not Applicable	Not Applicable	Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE A1+ Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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