

## Press Release

### Neerus Ensembles Private Limited

July 02, 2019

### Rating Downgraded



<b>Total Bank Facilities Rated</b>	Rs. 51.00 crore
<b>Long Term Rating</b>	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/ Stable)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs. 51.00 crore bank facilities of Neeru's Ensembles Private Limited (NEPL). The outlook is '**Stable**'.

The rating downgrade has been driven by deterioration in the financial risk profile and stretched liquidity position. The total debt increased from Rs. 86.56 crore in FY2017 to Rs. 119.21 crore in FY2018 thereby increasing its debt-equity (gearing) to 2.23 times in FY2018. TOL/TNW stood high at 3.19 times as on March 31, 2018 and Debt/EBITDA stood high at 4.90 times in FY2018. The company's liquidity profile is stretched marked by ~95-98 percent utilisation of bank limits.

NEPL, a Hyderabad based company was incorporated in 2005 by Mr. Harish Kumar and, Ms. Neeru Kumar. At present, the Directors are Mr. Harish Kumar, Ms. Neeru Kumar and Mr. Avnish Kumar. The company is engaged in manufacturing and around 15-20 percent of total revenue and also trading of apparels for kids, ladies and gents. The manufacturing unit of the company is located in Hyderabad, Mumbai and Delhi. The balance is from trading where the company does the work of designing the apparels. Recently, the company has started the accessories department which contributes to about 1 per cent of the total revenue. NEPL procures raw materials from China and the rest is procured from the domestic market including Mumbai, Delhi, Kolkata, Chennai, and other places. The key raw materials required are cotton, polyester and viscose. The company has 52 showrooms across 25 cities in 2 countries, i.e., India and Dubai.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of NEPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Experienced management and geographically diversified operations**

The promoters of NEPL, Mr. Harish Kumar and Ms. Neeru Kumar possess over four decade of experience in this industry. Mr. Avnish Kumar possess over a decade of experience in this industry. The promoters' has more than a decade of experience in this line of business. Previously, it was operating as a partnership firm. The company has presence in around 25 cities including presence in Dubai, Meena Bazaar.

- **Established brand and wide retail network**

The company sells readymade garments for men, women and kids under its established brand of 'Neeru's' and its showrooms are located across India in Noida, Hyderabad, Bangalore, Chennai, and other places. It has developed an established position in readymade garments retailing industry majorly in these states. The company has total 52 showrooms at present with a few more planned in the next 4-5 years.

## Weaknesses

### • Average financial risk profile

The financial risk profile of the company is average marked by moderate net worth, high gearing and moderate debt protection metrics. The net worth of the company stood at Rs. 53.54 crore as on 31 March, 2018 against Rs. 39.61 crore a year earlier. The rise in net worth is due to accretion to reserves and equity infusion by the promoters. NEPL's paid up capital had increased from Rs. 10.00 crore as on March 31, 2017 to Rs. 15.00 crore as on March 31, 2018 and Rs. 5.00 crore was infused in the tangible net worth through infusion of securities premium. Further, the net worth also includes unsecured loans from Directors of around Rs. 20.00 crore which has been subordinated to the bank and has been treated as quasi equity. The gearing ratio stood high at 2.23 times as on 31 March, 2018 against 2.19 times in the previous year. The total debt of Rs. 119.21 crore comprises of term loan of Rs. 68.09 crore, short term debt obligations of Rs. 39.88 crore and CPLTD of Rs. 7.14 crore. The total debt consists of Rs. 4.10 crore of unsecured loans which has not been subordinated to the bank and has been treated as debt. The term loan has been taken for expansion of its showrooms. The interest coverage ratio stood at 1.95 times in FY2018 against 2.01 times in FY2017. The debt service coverage ratio (DSCR) stood modest at 1.24 times in FY2018. The net cash accrual (NCA)/ Total debt (TD) stood at 0.07 times in FY18 against 0.07 times in the previous year.

### • Working capital management

NEPL has working capital intensive operations marked by GCA (gross current assets) of 247 days in FY2018 and 193 days in FY2017. The company has high inventory of 211 days in FY2018. The reason behind higher inventory is various product lines for which new stock piling is required for 52 showrooms. The debtor days are well managed at 37 days in FY2018. It also consists of the other current asset component of Rs. 12.67 crore as on March 31, 2018 which mainly consist of Input tax credit-GST, advances to supply of goods and services, prepaid expenses, loans and advances to employees and loans to others.

### Liquidity Position

NEPL's liquidity profile is adequate marked by moderate net cash accruals as against its maturing debt obligations. The company generated cash accruals of Rs.4.55-9.71 crore during the last three years through 2016-18, while its maturing debt obligations were in the range of Rs. 3.06-7.14 crore over the same period although the bank limit utilisation of the company remained stretched for the last 6 months March 31, 2019 (P). The company maintains unencumbered cash and bank balances of Rs.1.02 crore as on March 31, 2018. The current ratio of the company stood healthy at 1.39 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual as compared to the long term debt repayments over the medium term.

### Outlook: Stable

Acuite believes that NEPL will maintain its 'Stable' business risk profile in the medium term on the back of established operations and long standing experience of the promoter in the business. The outlook may be revised to 'Positive' in case of significant improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in financial risk profile.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	200.90	171.12	150.11
EBITDA	Rs. Cr.	24.31	17.59	13.60
PAT	Rs. Cr.	3.97	3.29	1.11
EBITDA Margin	(%)	12.10	10.28	9.06
PAT Margin	(%)	1.98	1.92	0.74
ROCE	(%)	12.38	11.69	18.33
Total Debt/Tangible Net Worth	Times	2.23	2.19	2.18
PBDIT/Interest	Times	1.95	2.01	1.57
Total Debt/PBDIT	Times	4.90	4.61	5.63
Gross Current Assets (Days)	Days	247	185	196

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-19.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing entities- <https://www.acuite.in/view-rating-criteria-4.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
13-May-2019	Cash credit	Long Term	11.90	ACUITE BBB-(Indicative)
	Cash credit	Long Term	13.00	ACUITE BBB-(Indicative)
	WC Term Loan	Long Term	10.00	ACUITE BBB-(Indicative)
	Cash credit	Long Term	16.00	ACUITE BBB-(Indicative)
	Proposed Long term Loan	Long Term	0.10	ACUITE BBB-(Indicative)
04-Apr-2018	Cash credit	Long Term	11.90	ACUITE BBB-/Stable (Assigned)
	Cash credit	Long Term	13.00	ACUITE BBB-/Stable (Assigned)
	WC Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Cash credit	Long Term	16.00	ACUITE BBB-/Stable (Assigned)
	Proposed Long term Loan	Long Term	0.10	ACUITE BBB-/Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash credit	Not Applicable	Not Applicable	Not Applicable	11.90	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Cash credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
WC Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Cash credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Proposed Long term Loan	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)

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### About Acuité Ratings & Research:

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