

## Press Release

Nachimuthu Industrial Association

March 12, 2021



**Rating Upgraded**

<b>Total Bank Facilities Rated*</b>	Rs.50.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB/Outlook: Stable (Upgraded)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.50.00 crore bank facilities of Nachimuthu Industrial Association (NIA). The outlook is '**Stable**'.

### Reason for upgrade

The rating is upgraded on account of improvement in profitability margin and healthy financial risk profile of the company. The operating income of the company stood stable at Rs.68.73 crore in FY2020 as against Rs.68.68 crore in FY2019. However, the company's operating margin improved and stood at 27.50 percent in FY2020 as against 26.67 percent in FY2019. PAT margin also improved and stood at 15.56 percent in FY2020 as against 13.60 percent in FY2019 on account of decline in interest cost. Also, the financial risk profile stood healthy with low gearing, healthy net worth and healthy debt protection matrices. Acuité believes going ahead, the company is likely to sustain its growth over the medium term due to its established presence of over 6 decades and experienced management.

### About the Company

NIA belongs to the Sakthi group of companies based out of Coimbatore (Tamil Nadu). NIA was established in 1956 promoted by Shri P. Nachimuthu and family. NIA currently operates 6 schools and 3 colleges under its umbrella offering undergraduate and post-graduate courses in various streams in engineering, polytechnic, agriculture, along with primary and secondary education.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of NIA to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Established track record of operations and experience management**

NIA was founded by Mr. P. Nachimuthu in 1956 and has established brand presence in Tamil Nadu region over the last six decades. It offers diverse courses through nine institutes from pre-primary school to master's degree across various domains; including engineering, polytechnic and agriculture streams. NIA is a family-run Trust with all the trustees having experience of more than four decades in running educational institutions.

Acuité believes that established presence of the association in the education sector, and established brand image of NIA aids in steady enrolment levels in all schools and colleges.

- **Healthy financial risk profile**

NIA's financial risk profile is healthy marked by healthy net worth, low gearing (debt-equity) and healthy debt protection metrics. The tangible net worth of the company improved to Rs.144.32 crore as on March 31, 2020 as against Rs.131.66 crore as on March 31, 2019 on account of accretion of profits to reserve. The total debt of Rs.7.95 crore as on March 31, 2020 consist of Rs.4.97 crore of long term debt, Rs.0.87 crore of unsecured loans from directors and Rs.2.11 crore of short term debt. The gearing (debt-equity) stood low at 0.06 times

as on March 31, 2020 as compared to 0.14 times as on March 31, 2019. The Interest Coverage Ratio stood healthy at 13.60 times for FY2020 as against 7.72 times for FY2019 since the company has fully repaid its long term debt. Total Outside Liabilities/Total Net Worth (TOL/TNW) moderated and stood at 0.20 times as on March 31, 2020 as against 0.30 times as on March 31, 2019. Net Cash Accruals to Total Debt (NCA/TD) stood at 2.48 times for FY2020 as against 1.03 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 3.20 times in FY2020 as against 2.67 times in FY2019.

Acuité believes that the financial risk profile of PECPL will continue to remain moderate over the medium term in the absence of any major debt-funded capital expenditure.

### **Weaknesses**

- **Intensive working capital cycle**

The company has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 147 days in FY2020 and 126 days in FY2019. The receivable days stood at 25 days in FY2020 as against 21 days in FY2019. The inventory days stood at 9 days in FY2020 as well as in FY2019. The average bank limit utilization remained low at 32 percent for the past trailing 6 months ended December 2020.

Acuité believes that efficient working capital management will be crucial for the company in order to maintain a healthy credit risk profile.

- **Education sector in India is highly regulated**

Education sector is highly regulated with the government deciding on the maximum student intake, fees, mandatory facilities, faculty strength. Any adverse change in government regulations may impact the trust's ability to generate sustained revenue growth and accruals. The institutions run by the trust faces stiff competition from other reputed institutions in the nearby vicinity, which may inhibit the trust's ability to attract fresh students.

### **Rating Sensitivities**

- Improving scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

### **Material Covenants**

None

### **Liquidity Position: Adequate**

The company has an adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.18.90-19.70 crore during the last three years through FY2018-20, while its maturing debt obligations were Rs.4.70-5.10 crore over the same period. The company's working capital operation is intensive marked by Gross Current Asset (GCA) of 147 days in FY2020 as against 126 days in FY2019. The utilization of working capital limits remained low at 32 percent for the past trailing 6 months ended December 2020. The company had unencumbered cash and bank balances of Rs.7.61 crore as on March 31, 2020. The current ratio of the company stands at 1.20 times as on March 31, 2020.

### **Outlook: Stable**

Acuité believes that NIA will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher-than-expected debt funded capex plan.

### **About the Rated Entity - Key Financials**

	<b>Unit</b>	<b>FY20 (Actual)</b>	<b>FY19 (Actual)</b>
Operating Income	Rs. Cr.	68.73	68.68
PAT	Rs. Cr.	10.69	9.34
PAT Margin	(%)	15.56	13.60
Total Debt/Tangible Net Worth	Times	0.06	0.14

	Unit	FY20 (Actual)	FY19 (Actual)
PBDIT/Interest	Times	13.60	7.72

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

Not Applicable

#### Any other information

None

#### Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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
19-Dec-2019	Overdraft	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
05-Oct-2018	Proposed Overdraft	Long Term	20.00	ACUITE BBB-/Stable (Assigned)
	Proposed Term Loan	Long Term	30.00	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
Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB/Stable (Upgraded)
Term Loan	Not Available	Not Available	Not Available	10.80	ACUITE BBB/Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	24.20	ACUITE BBB/Stable (Upgraded)

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**About Acuité Ratings & Research:**

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