



Press Release
Nachimuthu Industrial Association
October 31, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

Rating Rationale

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

Rationale for rating reaffirmation

The rating reaffirmation of NIA takes into account stable operating and financial performance of marked by improved operating income and healthy financial risk profile. The operating income of the company stood at Rs.74 Cr in FY2023 as against Rs.60 Cr in FY2022, while the financial risk profile continues to remain healthy marked by healthy net-worth, low gearing and comfortable debt protection metrics. The rating is however constrained by the consistent decline in the company's operating and net profit margins over the last three years. The operating margin which stood at 37.74 percent in FY2021 has declined to 19.79 percent in FY2023, primarily on account of subsequent increase in the employee cost and other operating and administrative expenses. Going forward, ability of NIA to maintain its scale of operations while improving the profitability margins and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

NIA established in 1956 belongs to Sakthi group of companies based out of Coimbatore (Tamil Nadu), is 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.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

NIA was founded by Mr. P. Nachimuthu in 1956 and has an 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

Financial risk profile of NIA is healthy marked by healthy net worth, low gearing and comfortable debt protection metrics. The tangible net-worth of the company stood healthy at Rs.181 Cr as on 31 March, 2023 (Provisional) as against Rs.170 Cr as on 31 March, 2022 due to accretion of profits to reserves. The gearing (debt-equity) stood marginally increased at 0.06 times as on 31 March, 2023 (Provisional) as against 0.03 times as on 31 March, 2022 due to an increase in the company's overall debt of Rs.10.33 Cr in FY2023 (Provisional) as against Rs.5 Cr in FY2022 which comprises of long term bank borrowings of Rs.10 Cr and short term bank borrowings of Rs.0.33 Cr. The increase in the company's long-term debt is towards the ongoing capex of constructing an additional building in the same college campus at Pollachi for introducing additional courses and to setup the other required infrastructure. The gearing is however expected to improve and remain low over the medium term in the absence of any additional debt-funded capex plan.

The interest coverage ratio and DSCR though moderated, it however remained comfortable at 23.72 times and 19.46 times for FY2023 (Provisional) as against 51.85 times and 38.03 times for FY2022. The Net Cash Accruals to Total debt stood declined at 1.86 times for FY2023 (Provisional) as against 3.85 times for FY2022. The Total outside liabilities to Tangible net worth stood at 0.17 times for FY2023 (Provisional) as against 0.15 times for FY2022. The Debt-EBITDA ratio stood at 0.51 times for FY2023 (Provisional) as against 0.25 times for FY2022.

Acuité believes that the financial risk profile of NIA will remain healthy over the medium term due to its low gearing, healthy tangible net worth and comfortable debt protection metrics.

Efficient working capital operations

The working capital operations of NIA are efficient marked by its improved Gross Current Assets (GCA) of 122 days for FY2023 (Provisional) as against 157 days for FY2022. This is on account of its improved inventory and receivables cycle which stood at 7 days and 0 days for FY2023 (Provisional) as against 11 days and 8 days for FY2022. The average bank limit utilization for 6 months' period ended September 2023 stood low at ~1 percent.

Acuité believes that the ability of NIA to maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Weaknesses

Declining profitability margins albeit improvement in operating income

NIA reported an increase in its revenue of Rs.74 Cr for FY2023 (Provisional) as against Rs.60 Cr in FY2022 which is a growth of ~22 percent and has achieved this mainly on account of increase in the intake of students across all its three colleges for various engineering, mechanical and agriculture related courses as well as increase in the accommodation of students in the hostel facilities which has helped the company to collect more amount of tuition fees and other related fees during the academic year 2022-23 as against 2021-22. Apart from this, the company also has its presence in the other business segments such as books & stationery for its schools and colleges, farming division of producing and selling coconuts in the local market as well as a wellness clinic for treating the cancer patients and providing alternative medicines at a reasonable cost. There has been a subsequent increase in the income generated from all these segments during FY2023 as against FY2022.

Despite of increase in the overall revenue, the operating margin of the company which were already affected at 22.50 percent during FY2022 as against 37.74 percent during FY2021, continued to remain further declined at 19.79 percent in FY2023 on account of subsequent increase in the employee cost and other operating and administrative expenses over the last two years post relaxation in the lockdown restrictions as against FY2021, since the operating margins of the company remained exceptionally high during that period due to reduction in

the overall operating expenses as the schools and colleges were operating completely through the online mode on account of covid pandemic. On the other hand, the net profit margin of the company also stood declined at 14.95 percent in FY2023 (Provisional) as against 18.06 percent in FY2022 on account of increase in the interest cost and depreciation charges during the year. For the current year as of 6M FY2024, company has achieved revenue of Rs.56 Cr as against Rs.26 Cr during 6M FY2023.

Acuité believes that the ability of NIA to maintain its scale of operations while improving the profitability margins will remain a key rating sensitivity factor.

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 NIA's ability to generate sustained revenue growth and accruals. The institutions run by NIA faces stiff competition from other reputed institutions in the nearby vicinity, which may inhibit the company's ability to attract fresh students.

Rating Sensitivities

- Ability to maintain scale of operations while improving the profitability margins
- Ability to maintain an efficient working capital cycle

All Covenants

Not applicable

Liquidity Position - Adequate

NIA has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.19 Cr to Rs.21 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation of upto Rs.1 Cr during the same period. Going forward, the NCA are expected in the range of Rs.24 Cr to Rs.28 Cr for the period FY2024-FY2025 against its debt repayment obligation of ~Rs.1 Cr during the same period. The working capital operations of the company are efficient marked by its gross current asset (GCA) days of 122 days for FY2023 (Provisional). The average bank limit utilization for 6 months' period ended September 2023 stood low at ~1 percent. Current ratio stands at 2.38 times as on 31 March 2023 (Provisional). The company has maintained cash & bank balance of Rs.14 Cr in FY2023 (Provisional).

Acuité believes that the liquidity of NIA is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that NIA will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or further decline in profitability margins or deterioration in the financial and liquidity profile most likely as a result of any major debt funded capital expenditure.

Other Factors affecting Rating

Not applicable

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	73.60	60.13
PAT	Rs. Cr.	11.00	10.86
PAT Margin	(%)	14.95	18.06
Total Debt/Tangible Net Worth	Times	0.06	0.03
PBDIT/Interest	Times	23.72	51.85

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
02 Aug 2022	Proposed Bank Facility	Long Term	24.20	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.80	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
12 Mar 2021	Proposed Bank Facility	Long Term	24.20	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	10.80	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Secured Overdraft	Long Term	15.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)

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 Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB Stable 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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