

## Press Release

N S P Tex

December 29, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 16.20 Cr.
<b>Long Term Rating</b>	ACUITE B+ / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 16.20 crore bank facilities of N S P Tex (NSPT). The outlook is '**Stable**'.

NSPT was established in 1989 by Mr. P Periyasamy. The entity is engaged in manufacture and export of readymade garments. The product profile of the partnership firm includes Kid's wear, men's wear and women's wear with production capacity of 15 lakhs pieces per annum. The manufacturing facility is located in Tirupur (Tamil Nadu). The daily operations of the entity are run by Mr. P Periyasamy and his son, Mr. P Kanakaraj.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of NSPT to arrive at the rating.

## Key Rating Drivers

### Strengths

#### • Established track record of operations and experienced management

The entity is promoted by Mr. P Periyasamy and his son, Mr. P Kanakaraj, who have around four and two decades of experience in the textile industry respectively. The entity was established in 1989 and has gradually expanded to the present total capacity of 15 lac pieces per annum at its plant in Tirupur (Tamil Nadu). The operations of the unit are supported by captive wind mill of 1 MW and solar unit of 200 KW. The entity saves around Rs.70 to Rs. 80 Lac in power costs yearly. The entity has a competent management supported by a team of well qualified and experienced second line personnel. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. The company has 20 knitting machines and about 600 stitching machines. Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the firm over the medium term.

#### • Moderate financial risk profile

The entity's financial risk profile is marked by moderate capital structure, (debt-to-equity) and debt protection metrics. The gearing has improved to 1.45 times as on March 31, 2018 from 1.89 times as on March, 2017 supported by moderate cash accruals and repayment of loans. Net worth is modest at Rs.17.45 crore in FY2018. As an accounting practice, the firm has not been charging depreciation to the P&L account; this lead to higher profitability. Further, about Rs.2.98 crore is in the form of provision for depreciation as on March 31, 2018 as part of net worth. On adjustment, the revised net worth stands at Rs.14.47 crore as on March 31, 2018. Moderate net cash accruals and debt has led to moderate NCA/TD and interest coverage ratio of 0.10 times and 2.20 times in FY2018 vis-à-vis 0.12 times and 2.85 times in FY2017, respectively. The company's cash accruals are expected at around Rs.2.00 crore against repayment obligations of about Rs.1.2 crore in FY2019 which gives adequate cushion on its liquidity. Acuité believes that with moderate profitability margins, and no major significant capex plans, the financial risk profile is expected to improve over the medium term.

## Weaknesses

### • Moderate working capital operations

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 157 days as on March 31, 2018 as against 139 days as on March 31, 2017. The company maintains an inventory of about 80 to 90 days and gives credit period of 60 days to its customers. Inventory days stood at 84 as on March 31, 2018 as against 69 days as on March 31, 2017. Debtor days stood at 62 as on March 31, 2018 as against 69 days as on March 31, 2017. Moderate working capital management has led to moderate utilisation of its working capital limits at about 73 percent over the past six months ended September 2018. As the raw materials are seasonally available; however, manufacturing and sales operations are carried out throughout the year, the operations continue to be working capital intensive over the medium term.

### • Susceptibility of operating margins to volatility in raw material prices

Operating margins of garment players are susceptible to changes in input prices, which are highly volatile. Any abrupt change in cotton prices or minimum support price declared by the Government can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners and garment players. Further, the raw material prices, and profitability is linked to the cotton production in the competing countries such as China and USA, carry-over stocks and the demand from the end user segment. Operating margins of the entity remained volatile between 7 to 8 percent over the years under review. Acuite believes that players profitability remain susceptible to input prices and demand.

## Outlook: Stable

Acuite believes that NSPT will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	44.95	51.61	57.17
EBITDA	Rs. Cr.	3.69	3.98	4.54
PAT	Rs. Cr.	2.16	2.67	3.02
EBITDA Margin	(%)	8.20	7.72	7.93
PAT Margin	(%)	4.81	5.18	5.29
ROCE	(%)	11.27	12.67	31.01
Total Debt/Tangible Net Worth	Times	1.45	1.89	2.48
PBDIT/Interest	Times	2.20	2.85	2.85
Total Debt/PBDIT	Times	5.28	5.56	4.57
Gross Current Assets (Days)	Days	157	137	106

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

None

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Not Applicable

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE B+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4

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### About Acuité Ratings & Research:

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