

Press Release

Nirmala Filaments India Private Limited

D-U-N-S® Number: 87-129-8892

February 19, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.50 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE BBB**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 6.50 crore bank facilities of Nirmala Filaments India Private Limited. The outlook is '**Stable**'.

Nirmala Filaments (India) Pvt Ltd (NFPL) Established in 1988, Nirmala Filaments manufactures Nylon Lines from 0.20mm to 3.20mm, which is being used for Commercial Fishing Gears like Long Lines & fishing lines. About Group Companies: Nirmala Polyropes India Private Limited (NPPL): Incorporated in 2008 is based out of Coimbatore, Tamil Nadu. NPIPL is engaged in the manufacture of HDPE Twines, Fishnet, and Danline Ropes in various grades for Trawling, Gill netting, Aquaculture, Agriculture, Safety & various other commercial needs. Nirmala Monofil Pvt Ltd (NMPL) Established in 2003, Nirmala Monofil manufactures Nylon Monofilament nets, polyester lines for stay wire application, and nylon weed cutters among others.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of NPPL, NFPL and NMPL (herewith referred to as Nirmala group or group) to arrive at the rating. The consolidation was on account of common promoters and common line of business with marginal amount of operational and financial linkages.

Key Rating Drivers

Strengths

• Extensive experience of the promoters

Nirmala group is established in 1988 and the Nirmala group's promoters have more than three decade-long experience of the in the Man-made filaments & fibres industry via various associate concerns. Overall management is looked after by the directors Mr. Biju Thomas, Mr. Gisto Joseph, Mr. John Kallatt, Mr. Francis Joseph and Mr. Bency Biju. The three decade-long experience of the promoters in the industry helped foster healthy relations with customers and dealers which has helped the group in obtaining repeat orders. The group derives majority of its revenues from the domestic market of about 80 per cent, and rest from exports. Acuité believes that Nirmala group shall continue to benefit from the extensive industry experience of its promoters in improving its business risk profile over the medium term.

• Healthy financial risk profile

Financial risk profile is supported by moderate network, strong gearing, and robust debt protection metrics. Network was moderate at Rs. 46.16 crore as on March 31, 2018, due to steady accretions to reserve. Gearing (debt-to-equity) is strong at 0.34 times for fiscal 2018 against 0.39 times for FY2017. The group's total outside liabilities to total network (TOL/TNW) is healthy at 0.57 times in FY2018. Healthy owing to moderate network, efficient working capital management and low reliance on working capital borrowings. The group has reported cash accruals of Rs.12.92 crores in FY2018. It is expected to generate accruals in the range of Rs.12-14 crores, against which its repayment obligations are about Rs.2.50 Crs over medium term. The debt protection metrics are robust: with net cash accruals to total

debt and interest coverage ratios at 0.82 and 9.64 times respectively for FY2018. Acuite believes that in the absence of significant debt-funded capex plans and moderate accruals, the financial risk profile is expected to be at similar levels over the medium term.

- **Efficient working capital management**

Efficient working capital management Nirmala Group's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 90-125 days historically due to prudent inventory management, and efficient collection of trade receivables. The inventory days are of less than 45 days historically through FY2018. This results in low reliance on bank lines at about 45 percent over six months through December 2018. Acuite believes that Nirmala groups operation continues to be efficiently managed supported by moderate net worth, efficient collection mechanism and in time inventory levels.

- **Steady improvement in operating profitability**

The group's revenues though modest and stagnant over the past three years, however its profitability has marginally improved year over year; attributed to focus on high margin products with change in product mix, better operating efficiencies and efficient working capital management. Operating margins improved consistently to 17.14 per cent in fiscal 2018 from 14.49 per cent in fiscal 2016. Acuite believes that the margins are expected to be at similar levels over the medium term.

Weaknesses

- **Modest scale of operations and stagnant revenues**

Nirmala group is in the business for nearly three decades. Despite the long track record of operations and established market presence, the scale remains modest, as evident from topline of about Rs.100 crores for the past three years. Stagnant revenues is partly attributed to intense competition, geographical concentration with entire group operations in and around Coimbatore, group focusing on high-value or high margin products and major revenues from domestic market to an extent of about 80 per cent. Acuite believes that modest scale and exposure to intense competition may continue to constrain the business risk profile over the medium term.

- **Stiff competition in price conscious domestic market and susceptibility of margins to raw material prices**

The group operates in a highly price sensitive domestic market that is largely fragmented with presence of several smaller players, which restricts its pricing flexibility. Furthermore, the key raw material for the operations are nylon chips, which is a petroleum derivative and whose prices are volatile. However, the group majorly sources its raw material from the domestic suppliers of Gujarat State Fertilizers and Chemicals Limited, GAIL India Ltd, Reliance Industries Ltd among others thus insulating from foreign exchange risks in case of imports. However, intense competition and volatility in raw material prices continues to constrain its ability to pass on the raw material prices and its pricing flexibility.

Outlook: Stable

Nirmala group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated moderate cash accruals of Rs.10 - 13 crores over the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.3-5 crores over the same period. The cash accruals of the group are expected in the range of Rs.13-15 crores over the medium term, against which its repayment obligations are around Rs.1.5 - 2.5 crores. Its working capital limits are moderately utilised at about 45 percent over the past six months through December 2018 owing to efficient working capital management with GCA of about 100 - 120 days. The current ratio of the group is healthy at 1.78 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate to support its incremental working capital requirements and margin money for the capex. Outlook: Stable Acuite believes that Nirmala Group will maintain a 'Stable' outlook over the medium term from its promoter's entrepreneurial experience and financial flexibility. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex 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.	100.56	105.90	102.75
EBITDA	Rs. Cr.	17.23	16.83	14.89
PAT	Rs. Cr.	6.94	6.53	4.29
EBITDA Margin	(%)	17.14	15.89	14.49
PAT Margin	(%)	6.90	6.17	4.18
ROCE	(%)	19.48	22.06	38.79
Total Debt/Tangible Net Worth	Times	0.34	0.39	0.48
PBDIT/Interest	Times	9.64	9.44	5.01
Total Debt/PBDIT	Times	0.90	0.90	1.04
Gross Current Assets (Days)	Days	124	100	90

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+

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About Acuité Ratings & Research:

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