Press Release

Nirmala Polyropes India Private Limited

March 24, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.12.20 Cr
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs. 12.20 crore bank facilities of NIRMALA MONOFIL PRIVATE LIMITED (NMPL). The outlook is **'Stable'**.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates, long-operating history of the company and vast experience of its promoters, established market position healthy financial risk profile, low utilization of bank limits coupled with scheduled debt repayments. These strengths are partially offset by the moderate scale of operations in an intensely competitive segment and susceptibility to volatility in raw material prices and foreign exchange (forex) rates.

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.

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.

NFPL, incorporated in 1988, manufactures Nylon Lines from 0.20mm to 3.20mm, which is being used for commercial fishing gears such as long lines and fishing lines.

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. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Extensive experience of the promoters**

  Nirmala group was established in 1988 and the promoters have more than three decades of 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 experience of the promoters in the industry has 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 percent, 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**

Nirmala Group's financial risk profile is healthy, marked by a healthy networth, low gearing and healthy debt protection metrics. Nirmala's networth is healthy at around Rs.53.33 crores as on March

31, 2019. The networth levels have seen significant improvement over the last three years through FY 2019 on account of healthy accretion to reserves during the same period.

The company has followed a conservative financial policy in the past; the same is reflected through its peak gearing and total outside liabilities to tangible networth (TOL/TNW) levels of 0.39 and 0.59 times as on March 31, 2017. The leverage levels continue to improved and remain low around 0.17 and 0.34 times as on March 31, 2019. TOL/TNW was healthy owing to healthy net worth, efficient working capital management and low reliance on working capital borrowings. The group has incurred capex of Rs.21 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period has been around Rs.10.50 crore to support the increase in scale of operations.
Group's healthy cash accrulas to the tune of about Rs.13.00 crores have supported in minimising the reliance on external debt lead to healthy gearing and debt levels of 0.17 times and Rs.6.43 crores as on March 31, 2019. Nirmala Group's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.12-13 crore, which are comfortable to service its repayment obligations and incremental working capital requirements. As a result, the gearing is expected to healthy and estimated below 0.25 times as on March 31, 2021 on back of absence of any major debt funded capex plans/healthy accretion to reserves.
The revenues of the company increased by around 15 per cent to Rs115.59 crore during 2018-19, while its operating margins were remained stable in the range of 15-17 per cent during last three years. The healthy profitability levels coupled with low debt levels has led to healthy debt protection measures. The interest coverage ratio and NCA/TD for FY 2019 were healthy at 11.14 times and 1.50 times, respectively vis-à-vis 9.64 times and 0.82 times in FY 2018.

Acuité believes financial risk profile should continue to be healthy, backed by sufficient liquidity and absence of any large capital expenditure (capex)/investment plans over the medium term.

- **Efficient working capital management**

  Nirmala Group's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 100-125 days, historically, due to prudent inventory management, and efficient collection of trade receivables. The inventory days are of less than 45-55 days and debtors days are 60-73 historically through FY2019. Further working capital is supported by low utilisation of bank lines of Rs 10.50 crore, at 7% on average in the 6 months through January 2020. Acuité believes that Nirmala groups operation continues to be efficiently managed supported by moderate net worth, efficient collection mechanism and in time inventory levels.

Weaknesses

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

  Nirmala group has been 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.100-115 crore for the past three years through FY2019. 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 percent.
  Acuité 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 in 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. The major raw material requirement of the company is a petroleum derivative, bulk of which is imported, thereby making it susceptible to fluctuations in crude prices and forex rates. In fiscal 2019, operating margin declined significantly to 15.33 percent from 17.14 percent the previous year, due to increasing crude prices and sharp depreciation in the rupee. The company's ability to pass on the increasing costs is also been restricted by growing competition. 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.

Liquidity Position: Adequate

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 2017-19, while its maturing debt obligations were in the range of Rs.2.00-2.50 crores over the same period. The cash accruals of the group are expected in the range of Rs.12-13 crores over the medium term, against which its repayment obligations are around Rs.2.00-2.50 crores.

Its working capital limits are moderately utilised at about 7 percent over the past six months through January 2019 owing to efficient working capital management with GCA of about 100 - 125 days historically through FY2019. The current ratio of the group is healthy at 3.07 times as on March 31, 2019. Further Liquidity is also supported by low utilisation of bank lines of Rs.10.50 crore, at 7 % on average in the 6 months through January 2020.
Acuité believes healthy accruals, unutilized bank lines to be sufficient to meet its repayment obligations as well as incremental working capital requirements and liquidity of the group is likely to remain adequate over the medium term In the absence of any significant capex plans.

Rating Sensitivity

- Increase in scale of operations, while improving its profitability margins.
- Further reduction of operating profitability below 12 percent

Material covenants

None

Outlook: Stable

Acuité believes that Nirmala Group will maintain a 'Stable' outlook over the medium term from its promoters' 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	115.59	100.56
PAT	Rs. Cr.	7.43	6.94
PAT Margin	(%)	6.43	6.90
Total Debt/Tangible Net Worth	Times	0.17	0.34
PBDIT/Interest	Times	11.14	9.64

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-59.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Consolidation Of Companies- https://www.acuite.in/view-rating-criteria-60.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
19-Feb-2019	Cash Credit	Long Term	4.00	ACUITE BBB/Stable (Assigned)
	Term loan	Long Term	7.20	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A3+ (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	4.00	ACUITE BBB / Stable (reaffirmed)
Term Loans	01-10-2019	Not Applicable	30-09-2024	3.57	ACUITE BBB / Stable (reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.63	ACUITE BBB / Stable (reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-4929 4041 aditya.gupta@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.