

Press Release

Nirmesh Enterprises Private Limited (NEPL)

May 19, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.13.00 Cr
Long Term Rating	SMERA BB/Stable (Upgraded from SMERA BB-)
Short Term Rating	SMERA A4+ (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating of '**SMERA BB**' (read as **SMERA double B**) from 'SMERA BB-' and reaffirmed the short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.13.00 crore bank facilities of Nirmesh Enterprises Private Limited (NEPL). The outlook is '**Stable**'.

NEPL, a Indore based company, established in 1977, is engaged in trading of different types of chemicals, bulk drugs, plastic films and printing ink. The rating is revised on account of improvement in business risk profile and efficient working capital management which is expected to be sustained in near to medium term. Further the ratings also factors in the experienced management and moderate financial risk profile. However the ratings continue to be constrained by the modest profitability and highly fragmented and competitive industry.

The improvement in business risk profile is owing to addition of new products and customers which has resulted increase in revenues to ~Rs. 74.00 crore in FY2017 (provisional) when compared to Rs.59.36 crore in FY2016 (an increase of ~25 per cent). Further the diversified customer profile across industries like pharmaceutical, printing, packaging, paint, mining and company plans to expand its customer base by entering into the export market is likely to further support the growth in revenues.

List of key rating drivers and their detailed description

Strengths:

Experienced management: Mr. Nirmal Kant Bagree has experience of around four decades in chemical trading business. Long track record of promoter has helped the company to develop established relations with customers and suppliers.

Moderate financial risk profile: The company had moderate network of Rs.5.47 crore and TOL/TNW ratio of 1.33 times as on March 31, 2016. The total debt of Rs.1.52 crore comprises of short term borrowings from the bank (gearing of 0.29 times as on March 31, 2016). The debt protection metrics of the company is moderate with NCATD (Net cash accruals to Total Debt) of 0.16 times for FY2016. The interest coverage ratio has improved to 2.05 times in FY2016 when compared to 1.81 times in FY 2015 mainly on account of improved profitability.

SMERA believes that the financial risk profile will continue to remain moderate on the back of comfortable debt protection metrics and conservatively geared capital structure.

Efficient working capital management: The company has comfortable Gross Current Asset of 66 days in FY2016 when compared to 55 days in FY2015. Further, NEPL has maintained a comfortable liquidity profile which is reflected in the significant buffer in the working capital limits since the company has utilised less than ~50 per cent of its sanctioned limit on an average.

Weaknesses:

Modest profitability: The operating profitability has remained at modest levels due to low value additive nature of business. It stood at 1.59 per cent in FY2016 as against 1.35 per cent in FY2015. Net margins stood low at 0.23 per cent in FY2016.

Highly competitive and fragmented industry: The chemical trading industry is a highly fragmented industry with large number of organized and unorganized players. Further, on account of trading nature of business, the entry barriers are low, leading to stiff competition for the company.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the rating.

Outlook: Stable

SMERA believes the outlook on NEPL's facilities will remain stable over the medium term on account of the company's experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if the company achieves a sustained growth in revenues and profit margins while maintaining its capital structure. Conversely, the outlook maybe revised to 'Negative' in case of a steep decline in the company's revenues and profit margins.

About the Rated Entity

NEPL is an Indore-based company engaged in the trading of chemicals, bulk drugs, plastic films, and printing ink. NEPL was established as a partnership firm and later in 2005 was reconstituted as a private limited company. Currently, day to day affairs of the company are handled by Mr. Nirmal Kant Bagree and Mr. Abhishek Bagree.

For FY2015-16, NEPL reported net profit of Rs.0.14 crore on operating income of Rs.59.36 crore, as compared to net profit of Rs.0.19 crore on operating income of Rs.66.46 crore in FY2014-15.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Feb -2016	Cash Credit	Long term	2.50**	SMERA BB-/Stable (Reaffirmed)
	Bank Guarantee	Short term	3.00#	SMERA A4+ (Reaffirmed)
	Letter of Credit	Short term	7.50@	SMERA A4+ (Reaffirmed)
29-Dec-2014	Cash Credit	Long term	2.50**	SMERA BB-/Stable (Reaffirmed)
	Bank Guarantee	Short term	3.00#	SMERA A4+ (Reaffirmed)
	Letter of Credit	Short term	7.50@	SMERA A4+ (Reaffirmed)
07-Jan-2014	Cash Credit	Long term	2.50**	SMERA BB-/Stable (Assigned)
	Bank Guarantee	Short term	3.00#	SMERA A4+ (Assigned)
	Letter of Credit	Short term	7.50@	SMERA A4+ (Assigned)

****One way interchangeability of Rs.1.00 crore from CC to LC**

@Sublimit Buyers Credit of Rs.3.00 crore (Both way full interchangeability with LC limit of Rs.3.00 crore to Buyers Credit to a Maximum LC limit of Rs.7.50 crore).

#Both way interchangeability from BG to LC & Vice Versa (To the extent of maximum BG limit of Rs.3.00 crore only)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in crore)	Ratings/ Outlook
Cash Credit	NA	NA	NA	2.50**	SMERA BB/Stable (Upgraded)
Bank Guarantee	NA	NA	NA	3.00#	SMERA A4+ (Reaffirmed)
Letter of Credit	NA	NA	NA	7.50@	SMERA A4+ (Reaffirmed)

****One way interchangeability of Rs.1.00 crore from CC to LC**

@Sublimit Buyers Credit of Rs.3.00 crore (Both way full interchangeability with LC limit of Rs.3.00 crore to Buyers Credit to a Maximum LC limit of Rs.7.50 crore).

#Both way interchangeability from BG to LC & Vice Versa (To the extent of maximum BG limit of Rs.3.00 crore only)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Reema Gangola, Sr. Rating Analyst Tel:022-67141313 Email: reema.gangola@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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