

Nagreeka Exports Limited

March 12, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term – Bank Facilities	12.34	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) and moved to ISSUER NOT COOPERATING category
Short Term – Bank Facilities	208.83	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)	Revised from CARE A3 (A Three) and moved to ISSUER NOT COOPERATING category
Total	221.17 (Rs. Two Hundred Twenty-One Crore and Seventeen Lakhs Only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Nagreeka Exports Limited (NEL) to monitor the rating(s) vide e-mail communications/letters dated October 09, 2020, October 16, 2020, October 22, 2020, November 10, 2020, November 23, 2020, December 04, 2020, December 17, 2020, December 28, 2020, January 05, 2021, January 11, 2021, January 27, 2021, January 28, 2021, February 01, 2021, February 03, 2021, February 05, 2021, February 08, 2021, February 16, 2021, February 19, 2021 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on NEL's bank facilities will now be denoted as **CARE BB+; Stable, ISSUER NOT COOPERATING*/CARE A4+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The revision in the ratings of bank facilities of NEL is due to deterioration in scale of operations, operating profitability and liquidity profile in FY20 and 9MFY21 period. Further, the ratings are constrained by working capital intensive nature of operations, susceptibility to raw material price and foreign exchange rate fluctuations and fragmented industry. Subsequently, CARE has revised outlook from "Negative" to "Stable". However, the ratings continue to derive support from promoters' extensive experience in textile industry, diversified client base and availability of liquid investments.

NEL has obtained a moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters

Nagreeka Exports Ltd (NEL) was promoted by late Mr Ishwarlal Patwari. Presently, Mr Sunil Kumar Patwari and Mr Sushil Kumar Patwari oversee operations of the company. The promoters have experience of over four decades in the trading and exports of raw cotton, cotton yarn and knitted fabric business. Promoters continue to support NEL by way of infusion of funds both in the form of preferential shares and unsecured loan. Promoters have infused about Rs.19.34 crore (redeemable preference share and unsecured loan) over period of FY17 to FY20.

Diversified client base and geographical presence

NEL has a well-established marketing set-up and its customer base is also geographically diverse across various countries. Total exports contribute to 60% of sales and geographically diversified in 40 countries including Bangladesh, Nepal, Pakistan, Netherlands and Korea.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

*Issuer did not cooperate; Based on best available information

Liquid investments

NEL's total quoted liquid investment, including investment in shares of Vedanta Limited, was at Rs.11.42 crore as on September 30, 2020.

Key Rating Weaknesses

Decline in scale of operations and profitability margins

The company continues to operate in the low end of the textile value chain i.e. spinning and trading of raw cotton and cotton yarn where margins have been inherently low. NEL reported decrease in revenue by 26% from Rs.608 crore in FY19 to Rs.472 crore in FY20. Further, NEL's total sales for 9MFY21 period stood at Rs. 272 crore and PBILDT of Rs. 1.52 crore as against total sales of Rs.359 crore and PBILDT of Rs.17 crore for 9MFY20. NEL posted cash loss of Rs.8.07 crore in 9MFY21.

Moderate leverage and debt coverage indicators

The debt-equity ratio of the company stood at 0.21x as on March 31, 2020 (PY: 0.27x). Overall gearing remains flat at 2.21x as on March 31, 2020 (PY: 2.29x). The interest coverage remained at 1.69x as on March 31, 2019 compared to previous year. NEL's interest coverage deteriorated at 1.27x for FY20 (PY: 1.69x) and fell below unity for 9MFY21 period.

Working capital intensive nature of operations

The average operating cycle of the company was 97 days in FY20 (PY: 89 days). Cotton, the key raw material being seasonal in nature is majorly available during the months of October to April. Thus, NEL has to maintain high levels of inventory for better capacity utilization. NEL generally maintains an inventory of 4-4.5 months during peak season and 1-1.5 months during off season. On the other hand, company procures its raw material mostly on cash basis to benefit from cash discounts which led to high utilization of working capital limits. NEL's average working capital utilization remained high at 95% for 12-month period ending March, 2020. Further, due to COVID-19 pandemic, NEL's receivables are expected to get further stretched on account of disruption in supply chain. To ease liquidity pressures NEL has applied to the lenders for release of COVID-19 lines.

Susceptible to fluctuation in raw material prices

The major raw materials consumed are cotton. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. As a result, the company remains exposed to raw material movement and may have to absorb any adverse fluctuation in raw material prices.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[CARE's policy on Default recognition](#)

[Financials Ratio- Non-Financial Sector](#)

[Rating methodology – Cotton textile industry](#)

[Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings](#)

[Rating of Short-Term instruments](#)

About the Company

Incorporated in March 1989, Nagreeka Exports Ltd (NEL) was promoted by late Mr. Ishwarlal Patwari. NEL is a part of Nagreeka group, which is engaged into trading and exporting activities for over four decades. NEL is involved in manufacturing and trading of textile products such as cotton yarn, knitted fabric, etc. NEL is an export-oriented trading company with exports contributing around 60% of its total operating income from operations in FY19. The Company is also into trading of Yarn which contributes 50% of sales in FY19. As at March 31, 2019, NEL had an installed capacity of 55,440 spindles at its plant located at Kolhapur, Maharashtra. NEL also has a yarn dyeing and cotton bleaching plant at Kagal near Kolhapur. NEL's marketing network is spread across various countries.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	608.90	472.50
PBILDT	20.79	17.93
PAT	4.64	0.68
Overall gearing (times)	2.29	2.21
Interest coverage (times)	1.69	1.27

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	12.34	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based-Short Term	-	-	-	192.75	CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	7.58	CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based-Short Term	-	-	-	8.50	CARE A4+; ISSUER NOT COOPERATING*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	12.34	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Negative (25-May-20)	1)CARE BBB-; Stable (26-Nov-19)	1)CARE BBB-; Stable (05-Oct-18)	1)CARE BBB-; Negative (06-Oct-17) 2)CARE BBB-; Negative (03-Apr-17)
2.	Fund-based-Short Term	ST	192.75	CARE A4+; ISSUER NOT COOPERATING*	1)CARE A3 (25-May-20)	1)CARE A3 (26-Nov-19)	1)CARE A3 (05-Oct-18)	1)CARE A3 (06-Oct-17) 2)CARE A3 (03-Apr-17)
3.	Non-fund-based - ST-BG/LC	ST	7.58	CARE A4+; ISSUER NOT COOPERATING*	1)CARE A3 (25-May-20)	1)CARE A3 (26-Nov-19)	1)CARE A3 (05-Oct-18)	1)CARE A3 (06-Oct-17) 2)CARE A3 (03-Apr-17)
4.	Non-fund-based-Short Term	ST	8.50	CARE A4+; ISSUER NOT COOPERATING*	1)CARE A3 (25-May-20)	1)CARE A3 (26-Nov-19)	1)CARE A3 (05-Oct-18)	1)CARE A3 (06-Oct-17) 2)CARE A3 (03-Apr-17)

*Issuer did not cooperate; Based on best available information

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based-Short Term	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Non-fund-based-Short Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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