Nickunj Edm Wires & Consumables Private Limited

March 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00	CARE BB; Stable	Revised from CARE BB-; Stable
Short Term Bank Facilities	3.50	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in long term rating assigned to the bank facilities of Nickunj Edm Wires & Consumables Private Limited (NEWCPL) factors in the improvement in scale of operations due to increase in volume and better realizations.

The ratings continue to factor in moderate & fluctuating profit margins, leveraged capital structure, weak debt coverage indicators and stretched liquidity position. The ratings, further continue to be constrained by high working capital intensive nature of operations, supplier concentration risk, susceptibility of profit margins to the volatile prices of raw materials and foreign exchange fluctuation risk, existence in competitive segment of the industry. The ratings, however, continue to draw strength from long track record of operations, experienced and resourceful directors and management team, reputed and diversified customer base.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations with total operating income exceeding Rs.70 crore and tangible networth base exceeding Rs.20 crore on a sustained basis.
- Improvement in the capital structure with overall gearing reach below unity level on a sustained basis
- Improvement in debt coverage indicators with interest coverage exceeding 3 times and TD/GCA below 10 times on a sustained basis.
- Improvement in liquidity position with inventory and collection period reach below 150 and 90 days respectively and utilization of fund based working capital limits reach below 80% on a sustained basis.

Negative factors

- Any deterioration in the financial risk profile leading to further stretch in the liquidity position of the company

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE's view that NEWCPL is likely to sustain its operating performance with its established customer base and established track record of operations in EDM wire segment.

Key strengths

Experienced directors and management team

NEWCPL has a track record of more than a decade of operations in EDM wire industry. The company is a part of Nickunj group whose flagship company Nickunj Eximp Enterprise Private Limited (NEEPL) has an established presence in the trading business of industrial products for around three decades. The group has established presence in the various cities of India which provide strong marketing connects to the company. The operations are looked after by directors Mr. Mishal Shah and Ms Neelam Shah.

Mr. Mishal Shah looks after overall management of the company and Ms.Neelam Shah looks after HR and Admin of the company. Mr Manohar Pai, Group President supports the Board by supervising day-to-day operations of the company. Further, the directors are assisted by qualified management personnel possessing requisite qualification & experience with regard to the industry. Hence, the extensive experience of the promoter enables them to establish strong marketing connects and operational process excellence for NEWCPL.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Reputed and diversified customer base

Over the year of its operations, NEWCPL has established a long-term relationship with its customers and suppliers. The customer profile of the company is diversified with top 5 customers contributing to 6.70% of the total revenues only in FY22 which also include reputed customers.

Improvement in scale of operations in FY22 with modest net worth base

The overall scale of operations of the company improved by 67% in FY22 to Rs.48.17 crore compared with Rs.28.89 crore in FY21, majorly from increase in volume and realizations across different product categories. Furthermore, the tangible net worth bases stood modest at Rs.13.50crore as on March 31, 2022 (vis-à-vis Rs.12.19 crore as on March 31, 2021).

As on 9MFY23 the company reported sales of Rs.36.84 crore. The company has total capacity of 800 MTPA. In FY22, the total capacity utilized was around 65% i.e. 522 MTPA vis-à-vis 389 MTPA last year. In FY23, as on Jan 2023 460 MTPA has been utilized and going forward utilization level is expected to improve on account of increase in export sales.

Key weaknesses

Moderate and fluctuating profit margins

The PBILDT margin of the company stood moderate in the range of 8-11% during FY19 to FY22 given the manufacturing nature of operations thereby commanding higher margins. However, the profit margins remained susceptible to the volatile prices of raw materials viz. copper, brass and zinc. This is evident from the fluctuating nature of PBILDT margin.

Supplier concentration risk

The raw material requirement of the company is primarily dependent on imports (mainly from Taiwan). Hence, the supplier profile of the company remained concentrated with top 3 suppliers contributing to 49% of the total purchases in FY22 of which Yuang-Hsian Metal Industrial Corporation contributed 29.2% and hence implying high level of supplier concentration risk. However, NEWCPL believes that quality of wire manufactured is USP of the company, which is dependent on high quality of raw material supplied by the overseas suppliers.

Susceptibility of profit margins to volatile prices of raw materials and foreign exchange fluctuation

NEWCPL is susceptible to the volatile prices of raw materials viz. copper, brass and zinc with low bargaining power to pass on the same due to intense competition from the market. The prices of the copper and brass are highly volatile and the same are primarily dependent on the commodity prices. Moreover, due to high level of inventory holding, any adverse price fluctuation may hamper the cost structure and thereby profitability of the company.

The company is exposed to foreign exchange fluctuation risk as it imports more than 70% of raw materials from Taiwan, Vietnam and other countries. The company does not get benefit of natural hedge in the absence of exports. However, it hedges as per requirement from time to time which partially mitigates the risk. Further, the company does not enter into long term contracts and reviews prices every 15days.

Moderately leveraged capital structure and relatively weak debt coverage indicators

NEWCPL's capital structure continues to remain moderately leveraged, however, the same has improved in FY22 from 1.54x as on March 31, 2021 to 1.14x as on March 31st, 2022.

The debt coverage indicators continue to remain weak with Total Debt/GCA at 7.88x during FY22 though improved from 15.93x during FY21. The interest coverage remains moderate and improved to 2.31x in FY22 vis-à-vis at 1.69x during FY21.

Highly working capital-intensive nature of operations

The operations of NEWCPL are highly working capital intensive in nature with considerable amount of funds are blocked in debtors and inventory. The company maintains high level of inventory as it majorly imports variety of products mainly copper and brass composition wires and consumables on bulk basis majorly from Taiwan to avail price discounts and also to meet immediate demand of the customers / order requirements and hence the inventory period remained high at 170 days in FY22 (vis-à-vis 272 days in FY21). Further, the company purchases in bulk and is required to maintain inventory of spares which is mainly used alongside trading and hence trading inventory of approx. 5 to 6 months has to be maintained which results in inventory period remaining at high. The collection period improved to 82days in FY22 compared with 160 days in FY21 on account of improvement in revenue.

On account of the same along with higher dependence on the debt fund, the utilization of working capital limits were high at 95% during past twelve months ended February 2023.

Existence in competitive and fragmented nature of operations

Owing to the presence in highly competitive EDM wire industry with number of organized and unorganized players operate in the industry intensifies the competition in the industry and also reduces the ability to pass on the raw material price fluctuation to an extent. The company faces competition from few large players as well as many players in the unorganized segment along with imports from various countries which leads to low bargaining power with customers.

Liquidity: Stretched

The liquidity position remained stretched marked by tightly matched accruals to repayment obligations. However, the cash & bank balance of the company stood modest at Rs. 0.94 crore as on March 31, 2022. The current ratio stood moderate at 1.61 times as on March 31, 2022 (while the quick ratio stood low at 0.67 times as on March 31, 2022). Cash flow from operating activities stood positive at Rs. 3.48 crore in FY22. Further, the average utilization of the working capital limits during past twelve months ended February 2023 stood at 95%, almost fully utilised.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Cables - Electricals

Nickunj EDM Wires & Consumables Private Limited (NEWCPL) was incorporated in 2007 by Mr. Nickunj Shah and Mrs. Neelam Shah. Currently, Mr.Mishal Shah and Ms.Neelam Shah are directors of the company. NEWCPL is engaged in manufacturing (constitutes 95% of total sales in FY22) and trading (constitutes 5% of total sales in FY22) of Electro Discharge Machining (EDM) wires, Jari wires and consumables. The company primarily caters to manufacturers across various industries viz. aerospace, plastic dye mould, auto components, textile etc. across domestic market. The registered and controlling office of the company is located at Marine Lines, Mumbai and its manufacturing units at Baddi, Himachal Pradesh and Umbergaon, Gujarat.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	28.89	48.17	36.84
PBILDT	3.31	4.11	NA
PAT	0.72	1.32	NA
Overall gearing (times)	1.54	1.14	NA
Interest coverage (times)	1.69	2.31	NA

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	3.50	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable	-	1)CARE BB-; Stable (16-Mar-22)	1)CARE BB-; Stable (03-Mar-21)	1)CARE BB-; Stable (24-Jan-20)
2	Non-fund-based - ST-Letter of credit	ST	3.50	CARE A4	-	1)CARE A4 (16-Mar-22)	1)CARE A4 (03-Mar-21)	1)CARE A4 (24-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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