The National Small Industries Corporation Limited

February 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,000.00	CARE AA+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating for long-term bank facilities of The National Small Industries Corporation Limited (NSIC) has been reaffirmed deriving strength from it being wholly owned by the Government of India (GoI). The corporation acts as a nodal and implementing government agency for different government schemes. It was established by the GoI to promote, aid and foster the growth of micro, small and medium enterprises (MSMEs) in the country. The rating takes comfort from comfortable and improving capitalisation level and asset quality, underpinned by majority secured loan book.

However, the rating is partially offset by NSIC's rangebound loan book, moderate profitability metrics and concentrated resource profile. The rating is further constrained as it provides financing to MSMEs that have inherently weaker credit profiles and remain more susceptible to macro-economic vulnerabilities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Higher level of strategic role or visibility in GoI-run schemes.
- Sustained material growth in the loan book, while maintaining asset quality.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Material changes in shareholding pattern, with the GoI's holding declining below 51%, or the company's strategic role reducing, or the GoI's focus on the MSME sector reducing in general.
- Material sustained deterioration in asset quality metrics

Analytical approach:

Standalone, factoring in 100% ownership by the GoI.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects NSIC will continue to be strategically important to the GoI for the development of the MSME sector, while the company maintaining asset quality.

Detailed description of key rating drivers:

Key strengths

Strategic importance to and support received from GoI

NSIC was established in 1955 for promoting, aiding, and fostering growth of MSMEs in the country. The corporation is the nodal agency for implementing government schemes for MSMEs, such as the PM Vishwakarma scheme and National SC-ST Hub scheme. CARE Ratings notes NSIC has government representation on its board of directors with two government nominee directors, Mercy Epao, Joint Secretary in Ministry of MSME, and Simmi Chaudhary, Economic Adviser and Joint Secretary in Ministry of MSME.

The GoI has also provided support to NSIC by infusing capital of ₹300 crore between FY12-15 for growing its business, however, there has been no capital infusion since FY16. It has also extended guarantees for borrowings from foreign financial institutions (FFIs) which make 3% borrowings as on March 31, 2024. NSIC receives support from government in the form of grants and subsidies, which is utilised for marketing activities of MSMEs. In FY24, the company's revenue from grants and subsidies has increased by 32% year-over-year (y-o-y).

As part of the Atmanirbhar Bharat Package in May 2020, NSIC had set up an alternative investment fund (AIF) – NSIC Venture Capital Fund Limited – with a corpus of ₹10,000 crore, acting as a mother fund for fund-of-funds for schemes. NSIC Venture

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

Capital Fund Limited is a wholly owned subsidiary of NSIC, however, has limited operational linkages and has a separate and independent management team.

Going forward, CARE Ratings expects NSIC to be strategically important for the government for developing the MSME sector. CARE Ratings also expects support to be forthcoming as and when required.

Comfortable capitalisation level

NSIC's capital adequacy ratio (CAR) remained comfortable at 40% as on March 31, 2024, up from 35% as on March 31, 2023, as the loan book remained sideways. Supported by internal accruals, the company's gearing reduced to 1.07x as on September 30, 2024, from 1.09x as on March 31, 2024, and 1.28x as on March 31, 2023. Given the marginal rise in loan book, CARE Ratings expects capitalisation levels to be comfortable.

Limited risk exposure owing to loan book being secured by bank guarantee (BG)

NSIC has a defined credit policy with loans extended up to 95% of the overall BG. The BG is invoked in case outstanding overdue including interest exceeds the BG amount, as it initially assists up to 95% of the BG. Considering the majority loan book is backed by BG, incremental stress in the asset quality is expected to be limited. NSIC accepts bank guarantee only of its approved list of banks which include all nationalised banks. In case of private banks and foreign banks, NSIC has a pre-approved list, where the overall cap per bank and individual exposure limits have been defined.

Adequate asset quality

NSIC recognises non-performing assets (NPAs) at 180+ days past due (dpd) wherein if the amount crosses the threshold of the BG, it is classified as NPA. As on March 31, 2024, its gross NPA (GNPA) remained sideways at 4.1% against 4.0% as on March 31, 2023. Its NNPA ratio continued to remain nil as the company carries 100% provision against its GNPA. Furthermore, as majority loan book is backed by the BG, the risk is mitigated to a certain extent. Given the majority loan book being secured by the BG and NSIC's policy role for the MSME sector, CARE Ratings expects the asset quality to remain adequate.

Stable profitability metrics

NSIC's net interest margin (NIM) improved in FY24 with 6.4% from 6.0% in FY23 underpinned by increase in the yields and reduced gearing profile. The company has increased its lending rate to 9.00%-10.75% in FY24 which was previously 8.00%-8.50%. Owing to rise in sale of services and grants and subsidies, the ratio of operating and other income (OOI) on average total assets (ATA) increased to 10.7% in FY24 from 8.5% in FY23. Supported by the rising NIM and OOI ratio, the return on total assets (RoTA) increased to 3.9% in FY24 from 3.4% in FY23, partially offset by risen operating expenses (opex) on ATA ratio to 11.7% in FY24 from 9.9% in FY23. In H1FY25, the RoTA remained rangebound with 3.8%.

Apart from generating revenue from interest income, NSIC has an income source from sales of services, including marketing schemes for MSMEs, facilitation fees charged on services provided, and other incomes received from hosting exhibitions, trade fairs, practical training, and incubation centres.

Key weaknesses

Relatively small scale and growth

NSIC's loan book has remained rangebound with five-year compounded annual growth rate (CAGR) of ~1% till March 31, 2024, while reporting similar loan book as on March 31, 2024, and March 31, 2023, to ₹2,614 crore as on March 31, 2024. CARE ratings note in H1FY25, its loan book has grew to ₹2,779 crore as on September 30, 2024, registering a growth of ~6% year till date (YTD). The loan book mix continues to remain similar with majority NSIC's operations being driven from raw material assistance (RMA), which aims at helping MSMEs through financing and purchasing of raw material (indigenous and imported). This is reflected in their overall loan book with 99% as on March 31, 2024. RMA and bill discounting are backed by BG. CARE Ratings expects the loan book growth to be at similar levels.

Concentrated resource profile

NSIC's debt profile remains concentrated with 97% being in form of working capital demand loan (WCDL)/ cash credit (CC) and balance in form of 3% as on March 31, 2024. The company has majority borrowings from banks with 96% and balance from FFIs.

Liquidity: Adequate

To match the short-term nature of its loan book, 97% borrowings are in the form of WCDL/ CC. Per the asset liabilities management statement dated September 30, 2024, there are positive cumulative mismatches in all time buckets. The liquidity profile is also supported by cash and cash equivalents of ₹59 crore and ~₹2870 crore of unutilised bank lines as on September 30, 2024. NSIC has advances of up to one year of ₹2,737 crore against debt obligations of up to one year of ₹1,433 crore.

Applicable criteria

[Definition of Default]
[Factoring Linkages Government Support]
[Rating Outlook and Rating Watch]
[Financial Ratios - Financial Sector]
[Non Banking Financial Companies]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Other financial services

NSIC is a systemically important non-deposit accepting non-banking financial company (NBFC-SI-ND), wholly GoI-owned under the Ministry of MSME. It was established in 1955 for promoting, aiding, and fostering the growth of MSME units in the country. In March 2011, NSIC was conferred upon with the Mini Ratna II status. NISC acts as facilitator, providing promotional and commercial schemes to MSMEs. Promotional activities include those for which budgetary support is provided by the government and related agencies. Commercial activities include the RMA scheme and bill discounting facility, and finances to MSMEs through bank tie-ups.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	558.02	663.78	284.56
PAT	110.48	126.56	60.83
Interest coverage (times)	2.63	2.49	2.53
Total Assets	3271.96	3178.90	3245.26
Net NPA (%)	0.00	0.00	0.00
ROTA (%)	3.44	3.92	3.79

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-Long Term	-	-	-	-	3000.00	CARE AA+; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-Long Term	LT	3000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (22-Feb-24) 2)CARE AA+; Stable (06-Apr-23)	1)CARE AA+; Stable (05-Apr-22)	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-Long Term	Simple

Annexure-5: Lender details

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

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sanjay Kumar Agarwal Senior Director **CARE Ratings Limited** Phone: 912267543582 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 044-28501001 E-mail: pradeep.kumar@careedge.in	Neha Kadiyan Director **CARE Ratings Limited** Phone: 91-120-4452022 E-mail: Neha.Kadiyan@careedge.in Jatin Arora Assistant Director **CARE Ratings Limited** Phone: 91-120-4452000 E-mail: Jatin.arora@careedge.in

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.

For detailed Rationale Report and subscription information, please visit www.careedge.in