

Neo Casta International

February 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	0.22 (Reduced from 0.64)	CARE BB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	7.50 (Enhanced from 7.08)	CARE BB; Stable / CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Neo Casta International (NCI) are constrained by modest operational performance, vulnerability of margins to fluctuation in raw material prices, foreign exchange fluctuation risk. The ratings also factor in the competitive & fragmented nature of handicraft industry and constitution of the firm being proprietorship. The ratings also take into consideration leverage capital structure of the firm with modest debt coverage indicators and stretched liquidity profile. The ratings, however, derive strength from the experience of the proprietor with established track record of entity and diversified & large customer base.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income (TOI) of more than ₹60 crore along with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of more than 15.00% on a sustained basis.
- Sustained improvement in capital structure marked by overall gearing ratio below 1.00x.

Negative factors

- Decline in scale of operations to below ₹30 crore along with decline in PBILDT and profit after tax (PAT) margins below 6.00% and 2.00% respectively on a sustained basis.
- Sustained deterioration in debt coverage indicators as marked by total debt to gross cash accruals (TDGCA) ratio above 8.00x and interest coverage ratio (ICR) below 2.00 times.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects CARE Ratings opinion that the entity shall sustain its moderate operational performance in the medium term.

Detailed description of key rating drivers:

Key weaknesses

Modest operational performance

TOI grew at a compounded annual growth rate (CAGR) of ~7% in last 5 years ended FY24 (refers to the period April 01 to March 31) and grew by 14% in FY24 over FY23 due to better sales realization. Scale of operations remained modest, which limits the entity's financial flexibility and restricts the benefits from economies of scale. Further, competition in the industry will continue to restrict future growth prospects. NCI's operating profitability remained in the range of 9-13% in the past 5 years ended FY24. The profitability margins stood comfortable as marked by PBILDT and PAT margin also improved to 12.96% and 8.02%, respectively, during FY24 (PY: 11.86% and 7.68%, respectively). The cost structure remained largely in line with previous year. Further, the firm booked revenue of ₹38 crore during 9MFY25 (refers to the period April 01 to December 31) and is expected to achieve ₹44-45 crore during FY25.

Leveraged capital structure

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

The entity's capital structure stood leveraged, as marked by an overall gearing of 2.07x as on March 31, 2024 (PY: 2.14x) with high reliance on external debt. The marginal improvement in the capital structure was on account of profit accretion to capital. Its debt profile largely comprises external debt in the form of term loan and bank overdraft. The total outside liabilities to net worth stood high at 2.79x as on March 31, 2024 (PY: 2.67x). Further, the ICR of the entity moderated to 3.31x as on March 31, 2024 (PY: 3.65x) on account of increase in interest level of the firm despite marginal improvement in PBILDT levels.

Vulnerability of margins to fluctuation in raw material prices and foreign exchange fluctuation risk

The key raw materials required by the handicraft industry are wood, metal, brass, glass, aluminum, etc. which is procured by NCI from the domestic market and then processed to make handicrafts items. Due to competitive nature of the industry, NCI is exposed to the risk of inability to pass on the prices of raw material to its customers. Further, NCI is exposed to foreign exchange fluctuation risk as the firm derives majority of its revenue from the export sales. Although NCI hedges its export receivables through derivative instruments; any un-hedged portion of sales remains a susceptible foreign currency fluctuation risk. NCI made a gain out of foreign exchange fluctuation amounting to ₹0.24 crore during FY24. (PY: ₹0.09 crore).

Competitive and fragmented nature of handicraft industry

NCI operates in the fragmented handicraft industry which is characterized by presence of large number of small-to medium sized players with individual entities accounting for a small portion of the overall market. The industry is dominated by unorganized sector on account of low capital requirements as well as low entry barriers. As a result, the competitive pressure in the industry is high which adversely impacts the bargaining power and profitability of all the players in the industry.

Proprietorship nature of constitution

NCI's constitution as a proprietorship firm has the inherent risk of possibility of withdrawal of the proprietor's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of proprietor. Moreover, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision of the lenders. The proprietor has withdrawn funds amounting to ₹2.19 crore in FY24 (PY: ₹1.27 crore).

Key strengths

Experienced proprietor and established track record of entity

NCI was established as a proprietorship firm in 2010 by Amit Kaushik, with an industry experience of nearly two and a half decades which he has gained through his association with NCI and other regional entities. The proprietor has adequate acumen about various aspects of business which is likely to benefit NCI in the long run. Furthermore, the proprietor is supported by experienced team having varied experience in the field of technical, marketing and finance aspects of business.

Diversified and large customer base

NCI has a diversified and large customer base. Due to its established track record, the firm has a large and established base of suppliers and customers, with whom it has been dealing for past many years. The firm gets repeated orders from its international buyers (both existing as well as new customers added through exhibitions). The firm's products are exported to a large number of customers spread in USA, Europe, Canada, Australia, Brazil, Netherlands, etc.

Liquidity: Stretched

Liquidity position continues to remain stretched as marked by tightly matched gross cash accruals to meet its debt repayment obligations. The GCA of the firm is expected to be around ₹4-5 crore against debt repayment obligations of ₹3 crore for FY25. The limits are ~80% utilized and cash flow from operation remained low at ₹1.66 crore in FY24. Further, cash and bank balance stood low at ₹1.04 crore as on March 31, 2024, and increase in working capital cycle increased to 46 days in FY24, compared to 7 days in FY23 on account of increase in inventory levels.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)
About the company and industry
Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

NCI was established as a proprietorship firm in 2010 by Amit Kaushik. The firm is engaged in the sale of handicraft and decorative items such as decorative trees, bells, angels, wooden trays, bowls, chopping boards, candle stands, pillars lanterns etc. at its from its facilities located at Moradabad and Saharanpur, Uttar Pradesh. Further, the firm has inhouse designing facility and get the items manufactured on a job work basis. The firm sells its manufactured products mainly to customers based in USA, Europe, Canada, Australia, Brazil etc. Domestically, the firm sells its products to customers based in Uttar Pradesh only. The firm procures its key raw material i.e., wood, metal, brass, glass, aluminum, etc. directly from various wholesalers based in Moradabad, Uttar Pradesh and Saharanpur, Uttar Pradesh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	41.34	47.32	38.00
PBILDT	4.90	6.13	NA
PAT	3.18	3.80	NA
Overall gearing (times)	2.14	2.07	NA
Interest coverage (times)	3.65	3.31	NA

A: Audited UA: Unaudited NA: Not Available; 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	August 2025	0.19	CARE BB; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	March 2025	0.03	CARE BB; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	6.17	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST-Derivative Limits	-	-	-	-	1.33	CARE BB; Stable / CARE A4

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 - LT-Term Loan	LT	0.19	CARE BB; Stable	-	1)CARE BB; Stable (20-Feb-24)	1)CARE BB; Stable (15-Mar-23)	1)CARE BB; Stable (24-Dec-21)
2	Fund-based - LT-Working capital Term Loan	LT	0.03	CARE BB; Stable	-	1)CARE BB; Stable (20-Feb-24)	1)CARE BB; Stable (15-Mar-23)	1)CARE BB; Stable (24-Dec-21)
3	Fund-based - LT/ST-Working Capital Limits	LT/ST	6.17	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (20-Feb-24)	1)CARE BB; Stable / CARE A4 (15-Mar-23)	1)CARE BB; Stable / CARE A4 (24-Dec-21)
4	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	1.33	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (20-Feb-24)	1)CARE BB; Stable / CARE A4 (15-Mar-23)	1)CARE BB; Stable / CARE A4 (24-Dec-21)

LT: Long term; LT/ST: Long term/Short 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 - LT-Term Loan	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Non-fund-based - LT/ ST-Derivative Limits	Simple

Annexure-5: Lender detailsTo view the 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.

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