

June 24, 2009

CARE ASSIGNS 'B' & 'PR4' RATING TO BANK FACILITIES OF NANDAN EXIM LTD.

CARE has assigned a '**CARE B**' (**Single B**) rating to the Long-term Bank Facilities of Nandan Exim Ltd. (NEL). Facilities with 'CARE B' rating are considered to offer low safety for timely servicing of debt obligations and carry very high credit risk. Such facilities are susceptible to default. Also, CARE assigned, a '**PR 4**' [**PR Four**] rating to the Short-term Bank Facilities of NEL. Facilities with 'PR 4' rating would have inadequate capacity for timely payment of short-term debt obligations and carry very high credit risk. Such facilities are susceptible to default.

Facility	Amount (Rs. crore)	Rating
Long-term Bank Facilities	80.00	CARE B
Short-term Bank Facilities	9.35	PR 4
Total	89.35	

Rating Rationale

The ratings are constrained by some instances of delay in depositing statutory dues with the appropriate authorities as well as recent instances of delay in payment of term loan instalment to banks and NEL approaching its bankers with a proposal for re-phasing/deferment of its term loan. The ratings would be further constrained by the stressed financial risk profile of the company as reflected in its high gearing levels (as a result of predominantly debt-funded capex in the last few years), steady decline in its profit margins and operating efficiency parameters resulting in stressed liquidity position with consequent adverse impact on its debt protection parameters. Finally, the impact of high raw material prices, intense competition and prevailing over-supply situation in the denim industry leading to a downward pressure on profit margins continue to be a dampener on the ratings. These constraints far outweigh the experience of its promoters in the textile industry and the company's integrated denim manufacturing facilities.

Company Profile

Promoted by Shri Vedprakash D. Chiripal and Shri Brijmohan Chiripal in August 1994 as a Private Limited Company, NEL started off with the trading of fabrics in the domestic and international markets. It was subsequently converted into a limited company in January 2004. NEL is engaged in the business of manufacturing of denim and weaving of grey fabric and is a listed arm of the Ahmedabad-based Chiripal Group.

For FY08, NEL reported a Profit After Tax (PAT) of Rs.6.42 crore on total income of Rs.289 crore as against a PAT of Rs.12.92 crore on total income of Rs.222 crore for FY07. During 9MFY09, NEL reported a PAT of Rs.0.75 crore on total income of Rs.249 crore.

The prospects of the company in the medium term would be governed by its ability to generate sufficient cash flows in a sluggish denim industry by ensuring optimal capacity utilisation. Its margins would also be impacted by the exchange rate movement of the rupee against the USD as well as the fluctuations in the prices of raw cotton. Early commissioning of the long delayed captive thermal power plant would help it in managing its power & fuel costs in a more efficient manner.

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