

## Nagreeka Exports Limited

May 25, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term – Bank Facilities	12.34	CARE BBB-; Negative [Triple B minus; Outlook: Negative]	Rating Reaffirmed, Outlook revised from “Stable” to “Negative”
Short Term – Bank Facilities	208.83	CARE A3 [A Three]	Rating reaffirmed
Total	<b>221.17</b> <b>(Rs. Two Hundred Twenty-One Crore and Seventeen lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Nagreeka Exports Limited (NEL) continue to derive strength from the experienced promoters, geographically-diverse customer base, and liquid investments held by the company providing backup against contingency. The ratings are, however, tempered by NEL’s low profitability margins, exposure to volatility in raw material prices, commodity nature of its products in trading operations, moderate leverage and working capital intensive nature of operations.

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.

### Outlook: Negative

The rating outlook for Nagreeka Exports Limited has been revised from “Stable” to “Negative” on account of expectation of lower scale of operations and profitability margins going forward, than anticipated at the time of the last rating review, in light of the Covid-19 pandemic. The outlook may be revised to “Stable” in case of better liquidity position of the company and improvement in business risk profile improvement in scale of operations and liquidity position.

### Rating Sensitivity:

Positive Factors:

- Increase in PBILDT margin beyond 6.00% on consistent basis
- Significant increase in scale of operations post resumption of lockdown
- Reduction in working capital intensity leading to positive cash flow from operations on consistent basis

Negative Factors:

- Any large debt funded capex leading to overall gearing increasing 2.00x and above

### 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 contributes to 60% of sales and geographically diversified in 40 countries including Bangladesh, Nepal, Pakistan, Netherlands and Korea.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Liquid investments**

NEL's total quoted liquid investment, including investment in shares of Vedanta Limited, was at Rs. 4.72 crore as on May 15, 2020 as against Rs.7.14 crore as on November 07, 2019.

**Key Rating Weaknesses****Moderate 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 increase in revenue by 11% from Rs.550 crore in FY18 to Rs. 608 crore in FY19 on account of significant increase in trading activity. However, trading being low margin segment coupled with increase in cotton prices, NEL's PBILDT margin reduced by 96 basis points to 3.41% in FY19 (FY18: 4.37%). Further during 9MFY20 the company reported sales and PAT of Rs. 358.77 crore and Rs.0.62 crore vis-à-vis Rs.471.01 crore and Rs. 1.31 crore during 9MFY19 respectively. The company's sales and profitability is expected to further moderate in FY21 on account of anticipated lower demand for cotton yarn in Q1 and Q2FY21.

**Moderate leverage and debt coverage indicators**

The debt-equity ratio of the company remained flat at 0.27x for the year ended on March 31, 2019. Overall gearing deteriorated marginally from 1.58x as on March 31, 2018 to 1.64x as on March 31, 2019 on account of higher working capital utilization. Though, GCA remained stable at Rs.10.38 crore (PY: Rs.10.08 crore) during FY19, Total debt to GCA deteriorated to 24.71x as on March 31, 2019 (21.1x as on Mar 31, 2018) due to significant increase in bills discounted. The interest coverage remained at 1.69x as on March 31, 2019 compared to previous year.

**Working capital intensive nature of operations**

The average operating cycle of the company was 89 days in FY19. 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.

**Industry Outlook**

Owing to the Covid-19 pandemic, the demand for cotton yarn is expected to decline significantly in Q1FY21 and Q2FY21 leading to deterioration in the operational and financial performance of the companies engaged in the segment. Cotton yarn prices, which were already under pressure in FY20, are expected to decline further in FY21. However, cotton being a seasonal crop, major procurement by spinning mills happens till February/ March, thereby fixing their procurement costs. With yarn realization expected to decline, and majority of the procurement cost already fixed, the spread and profitability margins of the industry players are expected to witness a further deterioration. Also, with declining cotton prices, domestic spinners could be looking at inventory losses in the future.

With major procurement of cotton almost done, majority players will be having limited cushion available in their working capital borrowings. Delay in payment from customers has also increased their reliance on the external borrowings. To address the liquidity concerns of the industry, some solace has been provided by the Reserve Bank of India (RBI) in the form of three-month moratorium announced on the payment of term loan installment and interest on working capital borrowings along with easing of working capital financing. This will lead to many companies resorting to incremental working capital borrowings from banks.

CARE does not expect any major capacity increase in the industry in the next one year, with only a few large integrated players expected to undertake some capacity expansion. However, with declining profitability and increased working capital borrowings, CARE expects debt coverage indicators of the companies in the industry to remain under pressure at least in the next two quarters.

Large companies having sufficient liquidity cushion in the form of cash & liquid investment and/ or unused working capital lines are expected to be better placed compared to their counterparts with limited liquidity cushion and holding large inventories.

**Liquidity: Stretched**

NEL's peak average working capital utilization remains high at 95% for the 12-month period ending March, 2020. The lenders have extended moratorium for term loan repayment for the company as per guidelines of RBI for the period of March-2020 to May-2020. NEL has liquid investments of Rs.4.43 crore as on May 15, 2020. The company has also applied to the bankers for release of Covid19 lines.

**Analytical approach:** Standalone

**Applicable Criteria**

[Rating of Short Term instruments](#)

[Rating methodology – Cotton yarn industry](#)

[Financials Ratio-Non Financial Sector](#)

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

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

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

**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)	FY18 (A)	FY19 (A)
Total operating income	550.74	608.90
PBILD	24.05	20.79
PAT	2.39	4.64
Overall gearing (times)	1.58	1.64
Interest coverage (times)	1.70	1.69

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	-	-	March, 2021	12.34	CARE BBB-; Negative
Fund-based-Short Term	-	-	-	192.75	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	7.58	CARE A3
Non-fund-based-Short Term	-	-	-	8.50	CARE A3

## 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 BBB-; Negative	-	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 A3	-	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 A3	-	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 A3	-	1)CARE A3 (26-Nov-19)	1)CARE A3 (05-Oct-18)	1)CARE A3 (06-Oct-17) 2)CARE A3 (03-Apr-17)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mr. Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Mr. Pulkit Agrawal  
Contact no. - 022-67543505  
Email ID- [pulkit.agrawal@careratings.com](mailto:pulkit.agrawal@careratings.com)

### Relationship Contact

Mr. Ankur Sachdeva  
Contact no. – +91-22-6754 3468  
Email ID: [kunal.shah@careratings.com](mailto:kunal.shah@careratings.com)

### 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.

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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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