

Nagreeka Exports Ltd.

October 05, 2018

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Remarks |
|--------------------------------------|--|--|---|
| Long term Bank Facilities- Term Loan | 20.44 | CARE BBB-;Stable (Triple B minus; Outlook: Stable) | Rating Reaffirmed and outlook revised from "Negative" |
| Short term Bank Facilities | 209.37 | CARE A3 (A Three) | Reaffirmed |
| Total | 229.81 (Rs. Two Hundred and Twenty Nine Crore and Eighty One Lakh only) | | |

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 presence in the low-end of the textile value chain resulting in 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.

The ability of the company to scale-up its operations, improve the profitability margins and capital structure along with management of the working capital requirements efficiently will remain the key rating sensitivities.

Outlook: Stable

The outlook has been revised to 'Stable' from 'Negative'. The revision in outlook is primarily driven by expected improvement in debt service coverage indicators on account of significant reduction in scheduled term loan repayment obligations with no major debt funded capex plan.

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.16.71 crore (as redeemable preference share and unsecured loan) during FY17 and FY18..

Diversified client base:

NEL has a well-established marketing set-up with geographically diversified customer base. The sales remain largely diversified with Bangladesh, Pakistan, Colombia, Turkey and Netherlands contributing to ~50% of total export sales. NEL's top 10 export customers continued to contribute about 44% of the total export sales in FY18.

Liquid Investments providing backup:

NEL's liquid investment was Rs.13 crore as on Sep 21, 2018 as against Rs.15.42 crore as on March 31, 2018. The same is significantly higher levels as compared to the scheduled debt repayment obligation of Rs.8.45 crore in FY19 (PY:13.49 Crore). Further, the gross cash accruals of the company have remained stable at around Rs. 10 crore in the last three years.

Low profitability margins due to limited value addition:

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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. For the manufacturing division the PBILDT margins generally varies in the range of 7-10%, while for trading segment the margins are generally in the range of 2% to 3%. NEL's primarily manufactures cotton yarn, bleached cotton yarn and surgical cotton further NEL also in to trading of cotton yarn, knitted fabrics, silico manganese, cloth etc. NEL's total operating income declined by 10.55% on yoy basis in FY18 to Rs.550.74 crore. The decline was due to 22.48% yoy decline in sale of treaded goods in FY18. Despite increase in raw material PBILDT margin improved to 4.37% in FY18 as compared to 3.67% in FY17. The improvement in PBILDT margins was mainly attributable to higher share of manufacturing sales as a percentage of total operating income rose to 49% in FY18(PY:42%).

Key Rating Weaknesses

Moderate leverage and debt indicators:

The debt-equity ratio of the company improved from 0.39x as on March 31, 2017 to 0.27x as on March 31, 2018. Led by scheduled repayment of term loan and accretion of profits (Albeit at reduced levels) over last couple of years, the overall gearing improved to 1.83x as on March 31, 2018 as against 2.27x as on March 31, 2017. Going forward in the absence of any further debt funded capital expenditure the overall gearing is expected to improve. The interest coverage deteriorated marginally to 1.70x in FY18 as against 1.75x in FY17.

CARE also notes that company has filed claim with insurance company for the fire which occurred at one of its plant in March 2017 resulting in loss of Rs.14.93 crore. The insurance loss is being considered at adjusted cost rate and same is taken under insurance claim receivable. No loss is effected in the profit and loss account as the inventory and fixed assets are fully insured. The claim with insurance company is under process.

Working capital intensive nature of operations:

The average operating cycle improved to 74 days in FY17. 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. The average of peak utilisation of the fund based facilities baring post shipment credit for the last twelve months period ended July 2018 was at 94.84% as against a utilisation level 94.85% for the last 12 months ended August 2017. While for the post shipment credit limits the average utilisation for last twelve months ended July 2018 was at 40.88% as against the average utilisation of 55.67% for the last 12 months ended August 2017.

Profitability margins exposed to volatility in prices of key raw material:

Cotton and cotton yarn are the key raw materials. Cotton prices have exhibited considerable volatility in the recent past due to various reasons, such as government policies, effects of monsoon, demand-supply scenario, etc. Profitability margins of the company is exposed to adverse movement in cotton prices thus any unprecedented increase in the raw material going forward, may impact the profitability margins of the company.

Fragmented & Competitive Nature of Industry:

The yarn manufacturing industry in India is highly fragmented and dominated by a large number of small scale units leading to high competition in the industry. Smaller standalone units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared with larger integrated textile companies who have better efficiencies and pricing power considering their scale of operations. Larger, integrated textile companies who have better efficiencies have better competitive advantage.

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's default recognition policy](#)

[Criteria for Short Term Instruments](#)

[Financial ratios - Non Financial Sector](#)

[Rating Methodology – Cotton yarn](#)

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 49% of total income from products earned from traded products in FY18, with exports contributing around 57% of its total operating income from operations in FY18. As at March 31, 2018, 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) | FY17 (A) | FY18(A) |
|------------------------------|----------|---------|
| Total operating income | 615.70 | 550.74 |
| PBILDT | 22.58 | 24.05 |
| PAT | 1.00 | 2.39 |
| Overall gearing (times) | 2.27 | 1.83 |
| Interest coverage (times) | 1.75 | 1.70 |

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Short Term | - | - | - | 193.29 | CARE A3 |
| Non-fund-based-Short Term | - | - | - | 8.50 | CARE A3 |
| Fund-based - LT-Term Loan | - | - | Mar 21 | 20.44 | CARE BBB-; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 7.58 | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | 20.44 | CARE BBB-; Stable | - | 1)CARE BBB-; Negative (06-Oct-17) 2)CARE BBB-; Negative (03-Apr-17) | 1)CARE BBB- (18-Apr-16) | - |
| 2. | Fund-based-Short Term | ST | 193.29 | CARE A3 | - | 1)CARE A3 (06-Oct-17) 2)CARE A3 (03-Apr-17) | 1)CARE A3 (18-Apr-16) | - |
| 3. | Non-fund-based - ST-BG/LC | ST | 7.58 | CARE A3 | - | 1)CARE A3 (06-Oct-17) 2)CARE A3 (03-Apr-17) | 1)CARE A3 (18-Apr-16) | - |
| 4. | Non-fund-based-Short Term | ST | 8.50 | CARE A3 | - | 1)CARE A3 (06-Oct-17) 2)CARE A3 (03-Apr-17) | 1)CARE A3 (18-Apr-16) | - |

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