Press Release

Nickunj Eximp Enterprises Private Limited

January 28, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
Long Term Bank Facilities	29.00	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
Short Term Bank Facilities	13.00	IVR A4 (IVR A Four)
Total	**42.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Nickunj Eximp Enterprises Private Limited (NEEPL) derive comfort from extensive experience of its promoters with demonstrated track record and reputed clientele base. The ratings also positively factors in the moderate order book position of the company. However, the rating strengths are partially offset by continuous moderation in its scale of operation, exposure to government regulations and foreign currency fluctuations, moderate debt protection metrics and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factor:

- Sustenance of growth in scale of operations with improvement in profitability
- Sustenance of the capital structure
- Improvement in cash conversion cycle

Downward factor:

- Any deterioration in liquidity profile
- Moderation in the capital structure with deterioration in overall gearing to more than 1x
- Further stretch in operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoter

Mr. Nickunj Shah (Founder, Chairman & Managing Director) has long standing experience of about 37 years in sales, marketing and distribution of Hi-tech products. Mr. Shah started early in life helping his father in the business of crucibles for the non-ferrous industry and gradually transformed the company from a product supplier to holistic end-to-end solutions provider.

Demonstrated track record with reputed clientele base

NEEPL has demonstrated track record of about three decades in its operating spectrum. During its long span of operations is has established relationship with many prestigious institutions.

Moderate order book position

The company has unexecuted orders aggregating to Rs.57 crore which is to be executed in the last quarter of FY20, indicating satisfactory near to medium-term revenue visibility for the company. The current orders on hand comprises of orders from public sector (Govt. Dept.) of Rs.14 crore, which mitigates the counter party risk up to some extent hence ensure secured receivables and from private sector of Rs.43 crore.

Key Rating Weaknesses

Continuous moderation in scale of operation

The company witnessed continuous moderation in its total operating income over the past three years from Rs.216.80 crore in FY17 to Rs.135.82 crore in FY19. NEEPL is into niche market of trading Hi-tech Industrial products and the moderation is mainly attributable to low demand in industrial components manufacturing sector driven by less capex investments by domestic manufactures and serving select customers limiting trade exposure. Dampening sales realisations further fueled the moderation in total operating income during the aforesaid period. However, despite moderation in its total operating income the EBITDA margin witnessed improvement from 2.26% in FY17 to 5.11% in FY19 mainly driven by execution of selective high margin orders. The PAT margin though remained thin has also improved from 0.75% in FY17 to 0.95% in FY19. During H1FY20, the company has achieved a total operating income of Rs.64.75 crore.

Exposure to foreign currency fluctuation risk and government regulations

The entity is mainly importing products from Italy and Germany. Its import procurements constitute 30% of its total purchases in FY19. All the sales however are concentrated to the domestic market across India. As a result of foreign procurements and no proper hedging mechanism, the entity is exposed to foreign exchange fluctuation risk. Revenue is further susceptible to government regulatory policies in relation to import-export duties, custom duties, restriction on volume of imports, freight rates, port charges etc. In FY19, INR ~ 0.45 Cr of forex losses had been incurred by the company.

Working capital intensive nature of operations

The operations of the company are working capital intensive marked by its high debtor's collection period and inventory holding requirements for prompt supply of its traded materials. The entity needs to procure its main trading materials mostly on advance basis or with minimum credit period and on the other hand has to extend higher credit period to its customers due to slower demand in the industry. The operating cycle of the company deteriorated from 101 days in FY18 and stood elongated at 189 days in FY19. The deterioration was mainly due to elongation in inventory days due to slower movement of goods and improvement in average creditor period. The company is largely dependent on bank borrowings to fund its working capital requirements and the average fund based limit utilisations remained almost full during the past 12 months ended on November 2019.

Average financial risk profile marked by moderate gearing and moderate debt protection metrics

The financial risk profile of the company remained average backed by negligible long term debt in the capital structure with minimal debt repayment obligation in the near term. However, due to its high dependence on bank borrowings the overall gearing ratio of the company stood moderate at 1.13x as on March 31, 2019. The total indebtedness of the company also remained high at 4.33x as on March 31, 2019. The interest coverage ratio remained comfortable and improved from 1.33x in FY18 to 1.41x in FY19 driven by marginal improvement in absolute EBIDTA. However, due to its low accruals, total debt to GCA remained high at 15.46 years in FY19.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The liquidity position of the entity is expected to remain stretched in near to medium term due to its low cash accruals coupled with working capital-intensive nature of operations and higher reliance on bank borrowings to fund the working capital requirements. However, absence of long-term debt repayment obligation imparts some comfort. Its capex requirements are modular and expected to be funded using unsecured loans of Rs.2.21 crore for which it has sufficient gearing headroom. Its bank limits are highly utilized to the extent of ~99% during the past 12 months ended on September, 2019.

About the Company

Nickunj Eximp Enterprises Private Limited (NEEPL), incorporated in 1987 was promoted by Mumbai based Mr. Nickunj Shah along with his family members. The company offers a wide range of hi-tech industrial products under five different business segments such as Advanced

Engineering solutions, High Temperature Solutions, EDM Solutions, Metal cutting solutions and Jewellery manufacturing solutions.

Financials:

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	193.99	135.82
EBITDA	6.53	6.94
PAT	1.30	1.30
Total Debt	29.41	31.69
Tangible Net worth	24.86	26.16
Adjusted Tangible Net worth^	26.74	27.95
EBITDA Margin (%)	3.37	5.11
PAT Margin (%)	0.64	0.95
Overall Gearing Ratio (x)	1.10	1.13

*Classification as per Infomerics' standards ^includes unsecured loans subordinated to bank facilities

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – CC	Long Term	29.00	IVR BB/Stable	-	-	-
2.	Short Term Fund Based Limits – LC/BG	Short Term	13.00*	IVR A4	-	-	-

**One way Interchangeability between LC/BG up to INR 9.00 Cr with the Max cap for Non-fund based facilities of Rs.13.00 Cr.*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- CC	-	-	-	29.00	IVR BB/Stable
Short Term Bank Facilities – LC/BG	-	-	-	13.00*	IVR A4

**One way Interchangeability between LC/BG up to INR 9.00 Cr each with the Max cap for Non-fund based facilities of Rs.13.00 Cr.*