

Press Release

Nikhil Adhesives Limited

January 06, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	Long Term (Fund based)	5.00	IVR BBB-/ Positive Outlook; (IVR Triple B Minus with Positive Outlook)	Outlook revised from IVR BBB- / Stable Outlook; (IVR Triple B Minus with Stable Outlook)
2	Short Term (Non-Fund based)	95.00*	IVR A3 (IVR A Three)	Reaffirmed
	Long Term (Fund based)	(20.00) [#]	IVR BBB-/ Positive Outlook; (IVR Triple B Minus with Positive Outlook)	Outlook revised from IVR BBB- / Stable Outlook; (IVR Triple B Minus with Stable Outlook)
Total		100.00		

* Enhanced by INR 10 Crore

[#] Sub-limit of Non-Fund based limit

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from experienced promoters & management, improved scale of operations & profitability, diversified product profile, reputed & moderately diversified clientele, improvement in capital structure & debt protection metrics and comfortable working capital utilisation level. The rating however is constrained by raw material price risk & susceptibility to foreign exchange fluctuations and competitive & fragmented nature of industry. The change in Outlook from Stable to Positive is on account of the expected improvement in sales and debt protection parameters.

Key Rating Sensitivities:

- **Upward Rating Factor** - Substantial & sustained improvement in revenue and/or profitability leading to TOL/TNW below 3.25x on a sustained basis.
- **Downward Rating Factor** - Any industry or company specific event and/or debt led Capex resulting in TOL/TNW above 4.00x on a sustained basis.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters and Management

NAL was originally incorporated in 1986 and has a track record spanning more than four decades in the emulsion/adhesive segment. The company has evolved with time, it commenced its operation by trading whereas today it manufactures various types of adhesives and emulsions. The company was promoted by Mr. Umesh Sanghavi, who looks after its day-to-day affairs and has been associated with the company since incorporation. He is well assisted by his 2 brothers, Mr. Rajendra Sanghavi who is the Executive Chairman and looks after the finance division and Mr. Tarak Sanghavi, who is the Executive Director and looks after the Purchases and Trading division.

Further, the company also has an experienced management, most of which have been working with NAL since it acquired Mafatlal Dyes & Chemicals in 2003, having an average industry experience of more than two decades.

Improved scale of operations & profitability

Over a period of last 3 years, the Company's total income from operations kept on increasing, from INR ~260 Crore in FY17 to INR ~330 Crore in FY18, growth of 27% & then rose to INR ~446 Crore in FY19, indicating a growth of 35%.

The EBITDA margin in FY19 was 3.71% & PAT margin 1.17%.

Diversified Product Portfolio

NAL is engaged in the manufacture of both emulsions and adhesive products. Also, it undertakes trading of various chemicals. Products like wood adhesives, construction chemicals, sticker adhesives, leather adhesives are covered under the branded consumer products segment (~20% of total sales) which are widely used by carpenters, printers, plumbers, mechanics, households, students, offices etc. while products like industrial adhesives, synthetic emulsions resins are categorized under the industrial products segment (~80% of total sales) which cater to various industries like packaging, textiles, paints, leather etc. During FY19, its product portfolio in the manufacturing segment comprise of various products like paint emulsions (~50% of total sales), industrial adhesives (~17% of total sales), textile emulsions (~12% of total sales), consumer adhesives (~20% of total sales), binders, plasticizers etc. Their Adhesive brand “MAHACOL”, “FORMISOL” and “EMDILITH” have

strong market presence and are known for its product quality among the consumers & have a nationwide network.

Reputed and moderately diversified Clientele

The company has well established relations with various reputed companies like Asian Paints Ltd., Akzo Nobel Pvt. Ltd., Kansai Nerolac Paints Ltd., Dow Chemicals, Berger Paints Ltd. etc. Further, the company's clientele is moderately diversified with top 5 customers comprising around 42% of the total revenues during FY19.

Improvement in Capital Structure and debt protection metrics

The Overall Gearing ratio of the Company is comfortable & further improved from 0.93x as at FY18 to 0.86x as at FY19. The Interest coverage ratio stands strong & improved from 1.96x in FY18 to 2.09x in FY19.

However, the company's capital structure has improved considerably post FY17, primarily on account of repayment of unsecured loans from related parties of INR 12.26 Crore, fresh equity infusion to the tune of INR 14.42 Crore and accretion of profits.

Comfortable Working Capital utilisation Level

The company's average utilisation of its fund based working limits stood comfortable at 59% during the past 12 months ended October 31, 2019. The Average Operating Cycle of the Company has improved from 25 days as at FY18 to 21 days as at FY19 on account of reduction in Average Collection period & Creditor days, indicating lower funds being blocked in working capital.

Key Rating Weaknesses

Raw Material Price Risk and susceptibility to foreign exchange fluctuations

The Company's business is predominantly import centric; with approx. 80% of the total raw material requirement being imported. The company has minimal export sales ranging between 5%-6% of total sales. In spite of volatility in the foreign exchange markets during the year FY19, the Company had a foreign currency gain of INR 0.39 Crore as compared to INR 1.61 Crore in FY18.

The company hedges around 40-50% of its exposure by way of forward cover, while the balance portion remains unhedged. The Unhedged Foreign currency exposure as at 31-Mar-19 was INR 22.95 Crore payable & as at 31-Mar-18 was INR 20.05 Crore payable.

The key raw material for NAL is vinyl acetate monomer and butyl acetate monomer, which are derivatives of crude oil. Crude oil has exhibited considerable volatility in the past on account of various reasons. Any adverse fluctuation in crude oil prices going forward may adversely impact the profitability of NAL. However, this risk is mitigated to a certain extent as the prices of purchases and sales are fixed every month. Hence any increase in cost is largely passed on in case of company's corporate customers.

The raw materials mainly imported are Acrylic Monomers and are not manufactured in India. They have tied up for various grades of monomers with BASF, Dairen, Tasnee, LG & various other multinationals. During the current year they have successfully negotiated with M/s BASF to supply this monomer in INR. Their agreement of purchase from BASF is approx. 6000 MT p.a. amounting to INR 50 Crore. With this agreement they have reduced their foreign exchange risk drastically.

Competitive and Fragmented Nature of Industry

The adhesives and emulsions industry in India is highly fragmented, due to the presence of a large number of small scale units leading to high competition in the industry. The company also faces stiff competition from the reputed players in the industry. Ability of the company to grow its scale of operations and improve its profitability needs to be observed.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The Company has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with an increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained moderately comfortable at 59% during the 12 months ended October 31, 2019. Overall the liquidity position of the company is expected to be Adequate.

About the company

Incorporated in 1986 as a private limited company in the name of “Hans Marketing and Services Private Limited”, Nikhil Adhesives Limited (NAL) initially commenced its operations as traders of emulsions and adhesives. Subsequently, in 1992, the name of the company was changed to "Nikhil Adhesives Limited", wherein "Nikhil Industries Limited", which was engaged in trading, was merged with it. Also, the company listed its shares on the Bombay Stock Exchange in the same year. In 2003, the company acquired the synthetic resin dispersion emulsion business of Mafatlal Dyes & Chemicals along with its management & registered brands, Hoechst German Technology, Machinery and highly qualified Technical and Marketing Teams (Mafatlal Dyes & Chemicals Ltd. - the erstwhile German Company - Hoechst Dyes and Chemicals Ltd. were the pioneers of adhesives business in India).

Presently, the company is engaged in the manufacture of industrial and consumer chemical products. Also, it engages in the trading of chemicals as per the market scenario.

The company markets its products under the brands "Mahacol", "Formisol", "Emdilith", "Formi-Stik", "Emdilith", "Rhino", "Mahaseal", "Mahatight", "Mahabond" and "MAF Bond".

Financials (Standalone)

For the year ended / As on	INR in Crore	
	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	330.23	446.36
EBITDA	12.80	16.58
PAT	2.86	5.21
Total Debt	32.42	34.16
Tangible Net Worth	35.04	39.59
EBIDTA Margin (%)	3.88	3.71
PAT Margin (%)	0.86	1.17
Overall Gearing ratio (x)	0.93	0.86

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: ICRA in its press release published on October 30, 2018 has classified the case under Issuer Not Co-operating category; in the absence of requisite information from the Company, ICRA was unable to take a definitive rating action.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (INR Crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities (Long Term)	Cash Credit (CC)	5.00	IVR BBB-/ Positive Outlook	IVR BBB-/ Stable Outlook (20-Aug-18)	--	--
Non-Fund Facilities (Short Term)	Bank Guarantee (BG)	2.00	IVR A3	IVR A3 (20-Aug-18)	--	--
Non-Fund Facilities (Short Term)	Letter of Credit (LC)	93.00*	IVR A3	IVR A3 (20-Aug-18)	--	--
Fund Based Facilities (Long Term)	Cash Credit (CC)	(20.00)	IVR BBB-/ Positive Outlook	IVR BBB-/ Stable Outlook (20-Aug-18)	--	--
	Total	100.00				

* Enhanced by INR 10 Crore

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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Fund Based Cash Credit	--	--	--	5.00	IVR BBB-/ Positive Outlook
2	Non-Fund Based Bank Guarantee	--	--	--	2.00	IVR A3
3	Non-Fund Based Letter of Credit	--	--	--	93.00	IVR A3
4	Fund Based Cash Credit	--	--	--	(20.00)	IVR BBB-/ Positive Outlook
Total					100.00	