



Press Release

Nagreeka Exports Limited (NEL)

May 17, 2023

Ratings

Instrument / Facility	Amount (INR crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	53.01	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised	Simple
Short Term Bank Facilities	184.33	IVR A4+ (IVR A Four Plus)	Revised	Simple
Total	237.34	(Rupees Two Hundred Thirty-seven crores and thirty-four lakhs only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in rating of the bank facilities of Nagreeka Exports Limited factors in overall deteriorated financial profile including weakening of capital structure. Company's revenue decreased at CAGR of ~33% to Rs.264.54 crores in 9MFY23 as against Rs.395.97 crores in 9MFY22. The debt coverage metrics were also recorded below unity.

The ratings continue to derive strength from experienced promoters and established presence in the yarn export segment, quality products with reputed and diversified client base with a healthy order book and moderate capital structure. However, the rating strengths are partially offset by raw material price risk, foreign exchange fluctuation risk and country concentration risk.

Key Rating Sensitivities:

Upward Factors

- Sustained & substantial improvement in revenue & profitability margins and debt coverage indicators, could lead to a positive rating action.

Downward Factors

- If there is a sustained pressure on the company's operating performance and/or upon elongation of its working capital cycle or any significant debt-funded capex, which would adversely impact its credit metrics and liquidity position.



Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and established presence in the yarn export segment

Nagreeka Exports Ltd is promoted and operated by Patwari family and Company has industry experience of over 4 decades which has assisted in establishing strong industry relationship with various stakeholders, including customers and suppliers. The promoters also frequently support the company by way of infusion of funds both in the form of preferential shares and unsecured loan.

Quality products with reputed and diversified client base with a healthy order book

NEL continues to offer a wide variety of products ranging from the Ne 21 to Ne 60, all of which are quality codes providing yarns of different colours and strengths. The company continues to have well established relations with various reputed companies like Nike, Reebok, Tommy Hilfiger, Levi Strauss, Wal-Mart, H&M. The company has an order book of ~Rs. 219.08 crores as on 31st March 2023.

Moderate capital structure and debt coverage indicators:

Company's capital structure remained moderate with overall gearing ratio of around 1.69x in 9MFY23 as against 1.84x in 9MFY22 and Long-Term Debt Equity ratio stood at 0.60x. TOL/TNW stood at 2.03 times as on 9MFY23 when compared to 2.10x in 9MFY22. The financial risk profile of the company stands moderate marked by net worth, debt protection metrics. Debt protection parameters declined with interest coverage ratio of (0.52x) in 9MFY23 as against 0.61x in 9MFY22. Total debt/GCA increased significantly to 81.78x in 9MFY23 as against 14.90x in 9MFY22 as there was a sharp decline in GCA to Rs.2.30 crores from Rs.12.77 crores.

Key Rating Weaknesses

Foreign Exchange fluctuation risk

The company is exposed to currency fluctuation risk to the extent that there is a mismatch between the currencies in which Export sales, import purchase, other expenses and borrowings in foreign currency are denominated and the functional currency of the company.



Press Release

The currencies in which these transactions are primarily denominated are Euro and USD. At any point in time, NEL generally hedges its estimated foreign currency exposure in respect of its forecast sales over the following three to six months. The company uses forward exchange contracts to hedge its currency risk. Such contracts are generally designated as cash flow hedges. NEL has zero unhedged position as on March 31, 2023.

Country concentration risk

The primary country into which they export cotton yarn is Bangladesh, which accounts to over 38% of the total exports amounting to Rs. 207.96 crores in FY2022. The exports are made to various countries depending upon the timely demand, thus exposing the firm to political risks, currency fluctuation risk and country risk.

Decline in business operations and profitability:

The top line of the company has declined by ~33% from Rs.395.97 crore in 9MFY22 to Rs. 264.54 Crore in 9MFY23. The decline has been primarily on account of lower volume in both trading as well as sales from manufacturing activity coupled with marginal dip in realisation. This is also on account of slowdown in the industry and other government regulations. Consequent to the drop in top line, variable expenses of power, labour, selling, and marketing expenses increased due to reduced economies of scale. Resultantly, The EBITDA margins also declined to 3.59% in 9MFY23 from 5.78% in 9MFY22 along with decline in PAT margin from profit of 1.83% in 9MFY22 to loss of 1.22% in 9MFY23.

Cyclical & fragmented nature of industry: The cotton spinning industry is characterized by cyclicity, fragmentation, and high capital intensity. Raw material cost forms a major component of cost and players operate at very low margins. Economies of scale and level of integration is the key to profitable operations.

Raw material price risk:

Cotton is NEL's major raw material component. Cotton prices are susceptible to factors such as rainfall pattern in cotton producing areas, pest attacks, availability of cheap imports, MMF prices and government regulations. Therefore, the company continues to be exposed to any fluctuation in the prices of cotton.



Press Release

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Stretched

The company has tightly matched liquidity marked by moderate gross cash accruals as against debt obligations of around Rs.16 Crore over FY24-FY26. The fund-based bank limit is around 82% utilized by the company during the last twelve months ended March 2023, whereas the non-fund-based utilization stood around 72%. The cash & cash equivalents stood at Rs.4.85 crores. The current ratio of the company also stood comfortable at 1.25x as on FY22.

About the Company

Nagreeka Exports Ltd. was incorporated in West Bengal on 6th March 1989. The company was promoted by late Mr. Ishwarlal Patwari and his family to undertake their family business of yarn trade. They pursued exporting of cotton yarn to mainly Bangladesh and other countries and decided to set up its own spinning mill in 1993 to overcome the yarn shortage and cater to its existing customer base. The Company's export-oriented Cotton Spinning Unit with a capacity of 55440 spindles is in Kolhapur, Maharashtra. The Company is producing about 7500 TPA of World Class normal and organic cotton yarn in the count range from English count (Ne) 20s to 61s with an average production count of Ne 39s-doublecombed and carded suitable for knitting and weaving sector for both export and domestic markets.



Press Release

Financials (Standalone)*:

(In Crore)

For the year ended / As on	31-03-2021	31-03-2022	9MFY23
	(Audited)	(Audited)	(Unaudited)
Total Operating Income	385.32	552.65	264.54
EBITDA	7.25	28.14	(4.27)
PAT	-8.32	6.21	(3.21)
Total Debt	207.60	190.60	188.10
Tangible Net-Worth	100.80	109.13	111.62
Ratios			
EBITDA Margin (%)	1.88	5.10	(1.61)
PAT Margin (%)	-2.16	1.12	(1.22)
Overall Gearing Ratio (x)	2.06	1.75	1.69

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Feb 18, 2022)	Date(s) & Rating(s) assigned in 2021-22 (Feb 02, 2022)	Date(s) & Rating(s) assigned in 2020-21 (Nov 3, 2020)
1.	Long Term Bank Facilities	Long Term	53.01	IVR BB+/ Stable	IVR BBB-/ Negative	IVR BB+ /Credit Watch with Developing implications	IVR BBB-/ Negative
2.	Short Term Bank Facilities	Short Term	184.33	IVR A4+	IVR A3	IVR A4+	IVR A3

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Press Release

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
GECL 2.0	-	-	FY28	32.30	IVR BB+ / Stable
GECL 2.0 Extn	-	-	FY28	20.19	IVR BB+ / Stable
CCECL	-	-	-	0.52	IVR BB+ / Stable
Export Packing Credit	-	-	-	141.00	IVR A4+
FBP/FBE/BRD/FDBP/FUDBP	-	-	-	38.25	IVR A4+
Letter of Credit	-	-	-	0.08	IVR A4+
Bank Guarantee	-	-	-	5.00	IVR A4+
Total				237.34	



Press Release

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-NEL-may23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

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.

