



## Press Release

### Nagreeka Exports Limited (NEL)

January 29, 2024

#### Ratings

| Instrument / Facility      | Amount (Rs. crore) | Ratings  | Rating Action | <a href="#">Complexity Indicator</a> |
|----------------------------|--------------------|--|---------------|--------------------------------------|
| Long Term Bank Facilities  | 45.53              | IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)                | Upgraded      | Simple                               |
| Short Term Bank Facilities | 194.33             | IVR A3 (IVR A Three)   | Upgraded      | Simple                               |
| <b>Total</b>               | <b>239.86</b>      | <b>(Rupees Two Hundred Thirty-nine crores and eighty-six lakhs only)</b> |               |                                      |

Details of Facilities are in Annexure 1

#### Detailed Rationale

The upgrade in the ratings of the bank facilities of Nagreeka Exports Limited factors in overall improved financial profile during 1HFY24 and expected to sustained over a medium term owing to improved industry dynamics as well as proposed right issuance leads to improvement in capital structure.

The ratings continue to derive strength from experienced promoters and established presence in the yarn export segment, expected improvement in revenue and margins,. However, the rating strengths are partially offset by raw material price risk and foreign exchange fluctuation risk

#### Key Rating Sensitivities:

##### Upward Factors

- Sustained & substantial improvement in revenue & profitability margins and/or improvement in working capital cycle leading to overall improvement in credit profile.

##### Downward Factors

- Any declined in revenue and profitability and/or any unplanned debt led capex and/or any deterioration in working capital cycle leading to deterioration in credit profile.



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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Improved financial profile:**

NEL's revenue as well as EBITDA margins improved during H1FY24 where revenue improved by 38% to Rs. 267.82 crores while EBITDA margins improved to 5.25% with change in product mix and target market as well as better industry dynamics owing to stable Indian cotton prices. During 1HFY24, NEL has increased its revenue share of home linen and bed linen segment which carries higher margins as compared to yarn which has contributed around 20%-30% of the revenue and carries around 8%-9% of margins. Infomerics expects that with higher share of high margins products and with lower contribution from trading business will lead to improved operating profitability.

##### **Issuance of right issue and credit profile:**

NEL's board of directors has approved issuance of right issue during February 2024 with issue size of Rs.37.50 crores. The proceeds of issue will be used to repay compulsorily redeemable preference shares and unsecured loans amounting to Rs.10.00 crore and Rs.12.20 crores respectively and balance will be used of maintenance capex and working capital requirements. Infomerics believes that the right issue along with improvement in operating profitability will lead to overall improvement in credit profile of NEL. Overall gearing is expected to improve to 1.04x in FY24 (E) (FY23:1.37x) while TOL/TNW is expected to improve to 1.32x in FY24 (E) (FY23:1.37x).

##### **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.



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### **Change in product and Target market:**

During 2QFY24, NEL has changed its product and target market mix where NEL has increased sales to manufacturer of home textiles where demand and margins are better. During FY24, NEL is expected to derive 20% each of the revenue from sales to manufacture of towels and bed linen and balance from sales to manufacture of apparel, last year apparel yarn constitutes 80% of the revenue. As per management, margins from yarn for towels and linens are around 8%-9%; while apparel yarn is around 5%-6% under current circumstances. NEL also does some trading activities on which they earn gross margins of around 3%-4%. Revenue mix of trading and manufacturing is depending upon the prevailing market situation. As on 31st October 23, NEL has moderate order book of Rs.263 crore which is expected to be executed in next six months. The Company's hygiene business has stabilised and is growing.

### **Key Rating Weaknesses**

#### **Elongated working capital cycle:**

NEL's working capital cycle remained elongated with net working capital cycle has increased to 134 days at the end of FY23 as compared to 83 days in FY22. Net working capital cycle has increased due to increase in inventory days which has increased to 123 days in FY23 (FY22:77 days), inventory days has increased as NEL has stocked the raw material inventory with better prices. Elongated working capital leads to average 90% of working capital utilisation for twelve months ended October 23.

**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, Man



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made fibre prices and government regulations. Therefore, NEL continues to be exposed to any fluctuation in the prices of cotton.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Criteria for rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

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

### **Liquidity – Adequate**

NEL has adequate liquidity marked by moderate cash accruals of Rs.6.18 crores in H1FY24 as against debt obligations of around Rs.12.00 Crore over FY24-FY26. The average utilised fund-based bank limit is around 86.95% utilized by the company during the last twelve months ended October 2023, whereas the non-fund-based utilization stood around 91%. The cash & cash equivalents stood at Rs.1.92 crores. The current ratio of the company also stood comfortable at 1.41x as on FY22.

### **About the Company**

Nagreeka Exports Ltd. was incorporated in West Bengal on 6<sup>th</sup> March 1989. NEL was promoted by late Mr. Ishwarlal Patwari and his family to undertake their family business of yarn trade. NEL has 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.



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### Financials (Standalone)\*:

(In Crore)

| For the year ended / As on  | 31-03-2022 | 31-03-2022 | 30-09-2023  |
|-----------------------------|------------|------------|-------------|
|                             | (Audited)  | (Audited)  | (Unaudited) |
| Total Operating Income      | 552.65     | 390.79     | 268.39      |
| EBITDA                      | 28.14      | 16.14      | 14.09       |
| PAT                         | 6.21       | 3.03       | 3.37        |
| Total Debt                  | 190.60     | 180.48     | 191.50      |
| Adjusted Tangible Net-Worth | 120.23     | 122.97     | 114.50      |
| <b>Ratios</b>               |            |            |             |
| EBITDA Margin (%)           | 5.10       | 4.16       | 5.25        |
| PAT Margin (%)              | 1.12       | 0.78       | 1.26        |
| Overall Gearing Ratio (x)   | 1.49       | 1.37       | 1.67        |

\* 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 2023-24 (May 2023) | Date(s) & Rating(s) assigned in 2021-22 (Feb 18, 2022) | Date(s) & Rating(s) assigned in 2021-22 (Feb 02, 2022)   |
| 1.      | Long Term Bank Facilities     | Long Term                      | 45.53                          | IVR BBB-/ Stable | IVR BB+/<br>Stable                                 | IVR BBB-/<br>Negative                                  | IVR BB+<br>/Credit Watch with<br>Developing implications |
| 2.      | Short Term Bank Facilities    | Short Term                     | 194.33                         | IVR A3           | IVR A4+  | IVR A3   | IVR A4+  |



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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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

### 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          | 25.34                        | IVR BBB-/ Stable         |
| GECL 2.0 Extn    | -                | -               | FY28          | 20.19                        | IVR BBB-/ Stable         |
| PC/ PCFC         | -                | -               | -             | 141.00                       | IVR A3                   |
| FBDN/FBP         | -                | -               | -             | 48.25                        | IVR A3                   |
| Letter of Credit | -                | -               | -             | 0.08                         | IVR A3                   |
| Bank Guarantee   | -                | -               | -             | 5.00                         | IVR A3                   |
| <b>Total</b>     |                  |                 |               | <b>239.86</b>                |                          |

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

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-nagreeka-jan24.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](http://www.infomerics.com).