

**Press Release**

**Nikhil Adhesives Ltd.**

**August 20, 2018**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating Assigned</b>	<b>Rating Action</b>
1	Fund Based Facilities-Cash Credit	25.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2	Non Fund Based Facilities-LC/BG/Buyer's Credit	65.00	IVR A3 (IVR A Three)	Assigned

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The ratings derive strength from the experienced promoters and management, diversified product portfolio, reputed & diversified clientele, improvement in capital structure and debt protection metrics and comfortable working capital utilisation levels. The ratings, however, are tempered by modest scale of operations, moderate profitability margins, volatility related to input costs and foreign exchange fluctuations and competitive and fragmented nature of industry. Profitability, leverage and growth in scale of operation are the key rating sensitivities.

**List of Key Rating Drivers**

- *Experienced Promoters and management*
- *Diversified Product Portfolio*
- *Reputed and Diversified Clientele*
- *Improvement in Capital Structure and debt protection metrics*
- *Comfortable Working Capital Utilisation Levels*
- *Modest Scale of Operations*
- *Moderate profitability margins*
- *Raw Material Price Risk and susceptibility to foreign exchange fluctuations*
- *Competitive and Fragmented Nature of Industry*

## 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, that have an average industry experience of more than two decades.

#### *Diversified Product Portfolio*

NAL is engaged in the manufacture of both emulsions and adhesive products. Also, it undertakes trading of various chemicals. Its product portfolio in the manufacturing segment comprises of various products like paint emulsions, industrial adhesives, textile emulsions and binders, consumer adhesives, plasticizers, etc. The company's brand "Mahacol" is well recognized in the market.

#### *Reputed and Diversified Clientele*

The company has well established relations with various reputed companies like Asian Paints Ltd, Akzo Nobel, Kansai Nerolac Ltd, Berger Paints Ltd. etc. Further, the company's clientele is well diversified with top 10 customers comprising only around 22% of the total revenues during FY17.

#### *Improvement in Capital Structure and debt protection metrics*

The company capital structure has improved considerably market by an overall gearing and long term debt equity ratio of 0.92x and 0.48x respectively as on March 31, 2018 as against

2.52x & 1.59x respectively as on March 31, 2017. This was primary on account of repayment of unsecured loans from related parties of Rs.12.26 crore, fresh equity infusion to the tune of Rs.14.42 crore and accretion of profits. Interest coverage ratio has also improved to 2.06x during FY18 as against 1.67x during FY17 while Total Debt/Gross Cash accruals and Term Debt/EBITDA is also moderate at 6.58x (PY: 11.98x) and 1.23x (PY 2.51x) as on March 31, 2018 respectively.

### ***Comfortable Working Capital Utilisation Levels***

The company's average utilisation of its fund based working limits stood comfortable at 52.91% during the past 12 months ended March 2018. NAL is generally able to avail a credit period of 3 months from its suppliers and allows a credit period of around 2-3 months to its customers while the inventory holding period stands around 30 days, resulting in a cash conversion cycle of 11 days during FY17 and 22 days during FY18.

### **Key Weaknesses:**

#### ***Modest Scale of Operations***

The company's total operating revenue has increased to Rs.336.29 crore in FY18 as against Rs.265.19 crore in FY17, however the absolute EBIDTA has increased only to Rs.13.77 crore as against Rs.11.36 crore in FY17, leading to a modest scale of operations.

#### ***Moderate profitability margins***

The EBITDA margin is low and has reduced to 4.09% in FY18 from 4.28% on account of decline in gross margins in the trading segment to 1.40% in FY18 from 9.43% in FY17. Trading accounts for around 25-30% of the company's total revenues. However, the company's PAT margin has improved to 0.90% in FY18 as against 0.77% in FY17 due to improvement in overall gearing levels and growth in scale of operations.

#### ***Raw Material Price Risk and susceptibility to foreign exchange fluctuations***

The key raw material for NAL is vinyl acrylate monomer and butyl acrylate 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 in

largely passed on in case of company's corporate customers. Further, imports constitute more than 85% of the company's raw material requirement. However, the company's exports constitute less than 5% of its total sales. The company hedges around 40-50% of its exposure by way of forward cover, while the balance portion remains unhedged. Thus, going forward, further weakening of the rupee may adversely impact the company.

### ***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.

### **Analytical Approach & Applicable criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **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. In 2003, the company acquired the synthetic resin dispersion emulsion business of Mafatlal Dyes & Chemicals along with its management. Presently, the company is engaged in the manufacture of industrial and consumer chemical products. Products like wood adhesives, construction chemicals & sticker adhesives are covered under the branded consumer products segment, while products like industrial adhesives, synthetic emulsions resins are categorized under the industrial products segment. Also, it engages in the trading of chemicals as per the market scenario. The company markets its products under the brands "Mahacol", "Formisol", "Formi-Stik", "Emdilith", "Rhino", "Mahaseal", "Mahatight", "Mahabond" and "MAF Bond". The products of the company mainly find application in the paints, packaging, furniture and textiles industry. NAL has various reputed companies as its clientele like Asian Paints Ltd, Akzo Nobel, Kansai Nerolac Ltd, Berger Paints etc. The company has a presence in around 21 states in India.

**Financials (Standalone Basis)**

(Rs. crores)

<b>For the year ended* / As On</b>	<b>31-03-2017 (Audited)</b>	<b>31-03-2018 (Provisional)</b>
Total Operating Income	265.19	336.29
EBITDA	11.36	13.77
PAT	2.04	3.01
Total Debt	45.18	32.50
Tangible Networkth	17.95	35.38
EBITDA Margin (%)	4.28	4.09
PAT Margin (%)	0.77	0.90
Overall Gearing Ratio (x)	2.52	0.92

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** N.A

**Rating History for last three years:**

<b>S. No.</b>	<b>Name of Instrument/ Facilities</b>	<b>Current Rating (Year 2018-19)</b>			<b>Rating History for the past 3 years</b>		
		<b>Type</b>	<b>Amount outstanding (Rs. crore)</b>	<b>Rating</b>	<b>Date(s) &amp; Rating(s) assigned in 2017-18</b>	<b>Date(s) &amp; Rating(s) assigned in 2016-17</b>	<b>Date(s) &amp; Rating(s) assigned in 2015-16</b>
1.	Long Term Fund Based Limits	Long Term	25.00	IVR BBB-/ Stable Outlook	--	--	--
2.	Short Term Non-Fund Based Facilities	Short Term	65.00	IVR A3			

**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).

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## About Infomerics:

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## 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 Fund Based Limits- Cash Credit	NA	NA	NA	25.00	IVR BBB-/ Stable Outlook
Short Term Fund based facilities- LC/BG/Buyer's Credit	NA	NA	NA	65.00	IVR A3