

Press Release

M/s Nidhi Textiles

September 11, 2018

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1.	Long Term Fund Based Limits	9.00	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
2.	Working Capital Demand Loan	2.50	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	
	<b>Total</b>	<b>11.50</b>		

Details of Facilities are in Annexure 1

**Detailed Rationale**

The rating is constrained by small scale of operations, low profitability margins, weak debt coverage indicators, working capital intensive operations, high competition in textile trading and constitution of the firm. However, the rating derives comfort from experienced partners, capital support by partners and established relationship with clients and suppliers. Gearing level, scale of operations and profitability and working capital management are the key rating sensitivities.

**List of Key Rating Drivers**

- *Small scale of Operations*
- *Low profitability margins*
- *Weak debt coverage indicators*
- *Working capital intensive operations*
- *High competition in textile trading*
- *Constitution of the firm*
- *Experienced partners*
- *Capital support by partners*
- *Established relationship with clients and suppliers*

## Detailed Description of Key Rating Drivers

### **Key Rating Weaknesses:**

#### ***Small Scale of Operations***

Though the firm has reported moderate growth in the turnover, the scale of operations of the firm continues to be small.

#### ***Low profitability margins***

The profitability margins of the firm are low. The EBIDTA margin is the range of 5%-6.5%. The PAT margin is below 1%.

#### ***Weak debt coverage indicators***

The overall gearing has increased to 1.32x on account of increase in the unsecured loans. The interest coverage ratio remained moderate at 1.14x in FY18 (FY17:- 1.13x).

#### ***Working capital intensive operations***

The inventory holding days are 129 days as on March 31, 2018. The debtors days are 207 days as on March 31, 2018 due to delay in receiving payments from clients. All these factors have resulted in high working capital cycle of around 230 days.

#### ***High competition in textile trading***

The industry is highly fragmented with presence of numerous small players and low entry barriers resulting in high competition for the firm and thereby impacting its margins.

#### ***Constitution of the firm***

Due to its constitution of being a partnership firm, the entity has the risk of withdrawal of partner's capital at the time of contingency. Also the firm has limited access to external borrowings from lenders.

### **Key Rating Strengths:**

#### ***Experienced partners***

The partners have experience of more than four decades in the industry.

## *Capital support by partners*

The partners have regularly supported the working capital requirement of business in the form of unsecured loans and equity. Over the last three years, the partners have infused around Rs.7.50 crore as capital to support the operations of the company.

## *Established relationship with clients and suppliers*

The entity has established relationship with its clients. The top 10 clients contribute to around 47% of the total sales indicating a moderately diversified client base. The entity has long term business relation and established supply arrangements with its vendors for procuring the same.

## **Analytical Approach & Applicable Criteria:**

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition & Post-Default Curing Period

## **About the Company**

M/s. Nidhi Textiles (NT) was incorporated in 1984 as a partnership firm by Mr. Vijaykumar Jain and Mr. Devendra Jain. The partners have an in-depth experience of 48 years and 40 years respectively in the textile industry. The entity is primarily involved in the trading of cotton fabrics for men, women and kids. There are various varieties of cotton fabric (satin, poplin, twill, dobby, lycra, jacquard etc.) which are traded by the entity. The firm is the authorized dealer of Auro Textiles (subsidiary of Vardhaman Textiles Limited), which is also the largest supplier of the firm. At present, the entity majorly sources and supplies only dyed cotton fabrics. Clients of the firm include domestic brands of men's shirts, cargo shorts, ethnic wear, kid's wear etc. The office of the firm is situated in Mumbai, while the operations/storage and dispatches takes place from the warehouse at Bhiwandi, Maharashtra (The warehouses are owned by the promoters and have been let out to Gemini Fashion and Nidhi textiles for fixed rental payments).

**Financials (Standalone Basis)**

	(Rs. crores)	
For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	39.01	43.21
EBITDA	2.10	2.74
PAT	0.27	0.31
Total Debt	15.56	18.52
Tangible Networth	13.37	13.99
EBITDA Margin (%)	5.39	6.34
PAT Margin (%)	0.70	0.73
Overall Gearing Ratio (x)	1.16	1.32

\* 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:**

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund based limits	Long Term	9.00	IVR BB- /Stable Outlook	--	--	--
2.	Working Capital Demand Loan	Long Term	2.50	IVR BB- /Stable Outlook	--	--	--

**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).

**Name and Contact Details of the Rating Analyst:**

Name: Mr. Abhilash Dash

Tel: (022) 40036966

Email: [adash@infomerics.com](mailto:adash@infomerics.com)

## 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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank 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 (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based limits	--	--	--	9.00	IVR BB- /Stable Outlook
Working Capital Demand Loan	--	--	June 2020	2.50	IVR BB- /Stable Outlook