April 05, 2021

NIS Management Limited: Ratings upgraded and removed from 'Issuer Not Cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Cash Credit	36.00	36.00	[ICRA]BBB+ (Stable); removed from 'Issuer Not Cooperating' category and upgraded from [ICRA]BB+ (Stable)
Non-fund based-Bank Guarantee	10.00	10.00	[ICRA]A2; removed from 'Issuer Not Cooperating' category and upgraded from [ICRA]A4+
Total	**46.00**	**46.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has upgraded the ratings and removed the same from 'ISSUER NOT COOPERATING' category based on adequate information received from the client for carrying out a detailed credit assessment.

The ratings continue to factor in the extensive experience of the promoters and an established market position of NIS Management Limited (NIS) in the domestic security and facility management business, particularly in eastern India and the company's established relationship with its reputed client base, strengthening its operational profile. The ratings also consider the company's comfortable financial profile, as reflected by a healthy return on capital employed, comfortable capital structure and debt coverage indicators.

The company remains exposed to contract renewal risks, given the fragmented and intensely competitive nature of the private security industry due to the presence of many organised and unorganised players which restricts pricing flexibility and put pressure on profit margins. The company is exposed to the high geographical concentration risk as reflected by around 76% of NIS' turnover generated from West Bengal during FY2020. Besides, the ratings are constrained by NIS' high working capital intensity of operations which increased further during FY2020, exerting pressure on its cash flows.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NIS' long track record and established market position in the private security, facility management and other manpower related services are likely to support its revenues going forward. Besides, the company's moderate debt level (mainly comprising working capital borrowing) and healthy profits are likely to result in a conservative capital structure and comfortable debt coverage metrics.

Key rating drivers and their description

Credit strengths

Extensive track record of the promoters and established market position in the domestic security services and facility management business, particularly in eastern India– NIS is one of the leading players in the organised security services and facility management industry in eastern India. The promoters, Mr. Debajit Choudhury and Mrs. Rina Choudhury, have vast experience in the manpower outsourcing and security services industry. NIS provides services like security, facility management, housekeeping, technical maintenance and support etc. The company primarily operates in eastern India, where it has an established market position. Nevertheless, it has expanded its geographical presence over the years in 17 states in the country and at present operates from 22 branch offices.

Established relationships with reputed clientele helped in generating repeat business– NIS' successful track record, coupled with its diverse service offerings, helped it in establishing a wide customer base comprising several reputed government as well as private companies. This strengthens the company's operational profile supports its revenue stream due to repeat business generated from the clients.

Financial profile characterised by a healthy return on capital employed (RoCE), conservative capital structure and comfortable debt coverage indicators- The return on capital employed (ROCE) of the company remained healthy historically on account of its asset-light business operations, notwithstanding a decline in the same to 19.76% in FY2020 from 22.82% in the previous year. The company's debt mainly comprises working capital borrowings. Its capital structure continued to remain conservative with a gearing of 0.61 times as on March 31, 2020 (0.77 times as on March 31, 2019) due to healthy tangible net worth and limited debt. The low gearing along with healthy profits kept NIS' debt-coverage indicators comfortable, as reflected by an interest coverage of 4.47 times (4.82 times in FY2019), total debt relative to OPBDITA of 1.96 times (2.11 times in FY2019) and net cash accrual relative to total debt of 30%, (26% in FY2019) respectively in FY2020.

Credit challenges

Fragmented and competitive nature of the security service industry and facilities management gives rise to contract renewal risks which restricts pricing flexibility and pressurises profit margins– As per industry practice, the company follows a wage-plus-service-charge model for pricing of security service, facility management and other manpower supply-based services rendered to the customers. The service contracts generally remain valid for one year. The security service industry is fragmented and intensely competitive in nature with the presence of many organised and unorganised players. This leads to a significant price-based competition, giving rise to contract renewal risk and keeping margins under check, primarily in the security services segment.

Exposure to geographical concentration risk as the major portion of revenue is derived from West Bengal– The company's sales are concentrated in eastern India, particularly in West Bengal, from where around 76% of its total revenues were generated in FY2020. Notwithstanding its significant geographical concentration, the company's revenues remain fairly diversified across a large customer base.

High working capital intensity of operations, exerting pressure on liquidity - The company does not hold any inventory. However, its net working capital relative to operating income (NWC/OI) in FY2020 stood at an elevated level of 31% (increased further from 28% in FY2019) mainly on account of high receivable days. NIS' receivable period remained stretched primarily due to longer debtor days for Government parties. This exerted pressure on the company's liquidity, to some extent.

Liquidity position: Adequate

NIS' liquidity position remains adequate, aided by a moderate free cash balance (Rs. 4.35 crore as on March 31, 2020) and limited debt repayment obligation. Its cash flow from operations turned positive in FY2020 from a negative level in FY2019, though the same remained at a modest level primarily because of an increase in working capital intensity of operation. The company's average utilisation of fund-based working capital limit remained at 82% during February 2020 to February 2021, with an undrawn limit of around Rs. 8 crore as of February 2021. It availed a funding support of Rs. 3 crore (GECL loan) on account of the pandemic for which the overall scheduled term loan repayment would increase to Rs. 2.16 crore in FY2022 from Rs. 1.85 crore in FY2021. Nevertheless, the company's free cash flows before debt repayment are likely to remain adequate for meeting the debt repayment obligation.

Rating sensitivities

Positive factors – ICRA may upgrade NIS' ratings if its NWC/OI reduces to 25% or below on a sustained basis.

Negative factors – An increase in the company's NWC/OI to more than 35% on a sustained basis may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

NIS is the flagship entity of the Kolkata-based NIS Group, promoted by Mr. Debajit Choudhury and Mrs. Rina Choudhury. It commenced operations in 1985 as a firm named National Investigation and Security for providing integrated security solutions. In March 2006, the firm was converted into a private limited company named NIS Management Private Limited. In June 2018, the company was converted into a public limited company and its name was changed to NIS Management Limited. NIS, in addition to security service, provides services like facility management, housekeeping, technical maintenance and support etc. across 17 states in India.

Key financial indicators

NIS Standalone	FY2019 audited	FY2020 audited	9M FY2020 provisional	9M FY2021 provisional
Operating Income (Rs. crore)	270.55	275.35	198.03	202.48
PAT (Rs. crore)	11.37	12.33	8.25	8.99
OPBDIT/OI (%)	8.32%	8.40%	8.37%	8.38%
PAT/OI (%)	4.20%	4.48%	4.16%	4.44%
Total Outside Liabilities/Tangible Net Worth (times)	1.33	1.02	-	-
Total Debt/OPBDIT (times)	2.11	1.96	-	-
Interest Coverage (times)	4.82	4.47	4.20	4.44

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: *Company*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 5, 2021	Feb 12, 2021	Mar 31, 2020	Sep 11, 2018
1	Cash Credit	Long-term	36	-	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	Bank Guarantee	Short-term	10	-	[ICRA]A2	[ICRA]A4+ ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	36.0	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	10.0	[ICRA]A2

Source: *NIS Management Limited*

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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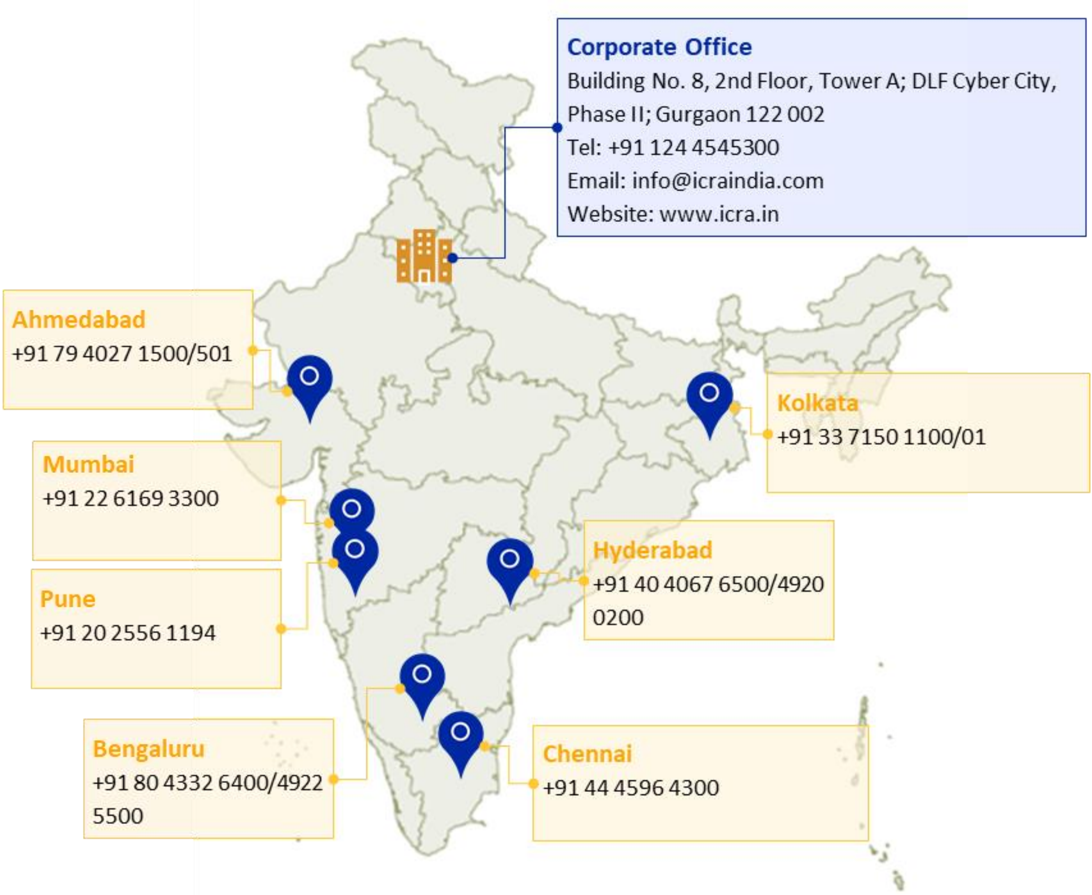

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