August 04, 2022

NIS Management Limited: Ratings reaffirmed and removed from Non-Cooperating category; rated amount enhanced

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based – Term Loans	-	13.80	[ICRA]BBB+ (Stable); Reaffirmed and removed from the 'Issuer Not Cooperating' category
Long term - Fund based – Cash Credit	36.00	56.00	[ICRA]BBB+ (Stable); Reaffirmed and removed from the 'Issuer Not Cooperating' category
Short term - Non-fund based – Bank Guarantee	10.00	12.00	[ICRA]A2; Reaffirmed and removed from the 'Issuer Not Cooperating' category
Total	**46.00**	**81.80**	

^Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of NIS Management Limited (NIS) with its five subsidiaries. NIS has provided a corporate guarantee for a subsidiary's loans. The ratings reaffirmation continues to factor in the extensive experience and established market position of NIS in the domestic security and facility management business, particularly in West Bengal and the company's long relationship with its reputed client base, leading to repeat orders. ICRA notes the Group's association with Government-sponsored skill development programme and vocational training, which help NIS in recruiting and training its large manpower. The ratings also factor in the company's conservative capital structure due to its healthy net worth, aided by sizeable accretion to reserves over the years despite a significant increase in working capital borrowings in the recent years.

NIS' consolidated operating income (OI) and profitability were adversely impacted by the pandemic in FY2021. In FY2022, the consolidated OI is estimated to have improved by around 12%, but the operating margin is estimated to have declined by around 50 basis points. In the current fiscal, with an improvement in the operating environment and higher order book, both revenues and profitability are likely to improve. The ratings, however, factor in the fragmented and intensely competitive nature of the private security industry due to the presence of many organised and unorganised players, which exposes the players to contract renewal risks and restricts pricing flexibility, exerting pressure on profit margins. The company also remains vulnerable to high geographical concentration risk as the major portion (78.6% in FY2022) of NIS' turnover is generated from West Bengal. Besides, the ratings are constrained by NIS' high working capital intensity of operations, which increased significantly in the recent years due to a rise in debtor days and income tax refunds receivables, resulting in an increase in borrowings.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NIS' established market position in the private security and facility management services are likely to support its revenues. Besides, healthy profits and cash accruals are likely to keep the company's debt coverage metrics and liquidity position comfortable, going forward.

Key rating drivers and their description

Credit strengths

Significant operational track record and established market position in the security services and facility management business, particularly in West Bengal – NIS is one of the established players in the organised security services and facility management industry. The company operates through 22 branch offices in 15 states. However, it has a strong market position

particularly in West Bengal. NIS provides security service and facility management services including housekeeping, technical maintenance and support etc. The promoters, Mr. Debajit Choudhury and Mrs. Rina Choudhury, have vast experience in the manpower outsourcing and security services industry.

Established relationship with reputed clientele leads to repeat business – NIS has an established relationship with a wide customer base comprising several reputed Government as well as private companies. This helps the company get repeat business from the clients.

In-house training capabilities lend operational strength – NIS' subsidiary, Keertika Academy Private Limited, is involved in manpower training/ skill development under various Government schemes. Another subsidiary, Keertika Education & Associates LLP, runs vocational training institutes in West Bengal. The Group's presence in such activities lends operational strength to NIS, aiding in recruiting and training its large employee base of around 15,000 employees.

Conservative capital structure, notwithstanding a consistent increase in debt in recent years – NIS' consolidated debt level has increased consistently in the recent years mainly due to rising working capital requirements. Nevertheless, its healthy tangible net worth, aided by sizeable accretion to reserves over the years, kept the capital structure conservative, as reflected by a consolidated gearing of 0.8 times as on March 31, 2021.

Credit challenges

Fragmented and competitive nature of the industry gives rise to contract renewal risks and restricts pricing flexibility, keeping profitability under check – The company derives almost similar revenues from the security service and facility management segments. As per industry practice, the company follows a wage-plus-service-charge model for the manpower provided to the customers. The 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 service segment. However, the facility management segment fetches higher margins owing to comparatively value-added nature of the services.

Exposure to geographical concentration risk as a major portion of revenue is derived from West Bengal – The company's sales are concentrated in West Bengal, from where it derived 78.6% of its total revenues in FY2022. Nevertheless, the company has a large customer base and is in the process of expanding its presence in other states.

Sizeable receivables leading to high working capital intensity of operations – NIS' debtor days consistently increased over the last five years to 133 days in FY2022 from 96 days in FY2018 (on a standalone basis), mainly because of delay in receipt of payments particularly from the Government and public sector customers. This along with sizeable income tax refunds receivables led to an increase in the company's net working capital relative to the operating income (NWC/OI) to 45% in FY2022 (provisional) from 20% in FY2018, on a standalone basis. This, in turn, led to a consistent increase in the company's borrowings to meet the incremental working capital requirements.

Liquidity position: Adequate

NIS' liquidity position is likely to remain adequate. Its consolidated cash flow from operation is estimated to have turned negative in FY2022 due to an increase in the working capital requirement. However, the same is likely to improve and remain healthy with a rise in profits, going forward. The consolidated long-term loan repayment obligation of the company will remain at Rs. 4-7 crore annually in the near-to-medium term, with a peak repayment in FY2025. However, sizeable free cash (around Rs. 14 crore on a standalone basis as on March 31, 2022) and a significant cushion in the working capital limit utilisation, with around Rs. 16 crore unutilised limit on an average during November 2021 to April 2022 are likely to support the liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade NIS' ratings if there is a significant improvement in its revenues, profits and liquidity position on a sustained basis.

Negative factors – Deterioration in the company's debt coverage metrics and/or a stretch in the working capital cycle, adversely impacting the liquidity position, may trigger ratings downgrade. Specific credit metrics that may lead to ratings downgrade include an interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity along with its five subsidiaries (as mentioned in Annexure-II).

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, it was converted into a public limited company and the name was changed to NIS Management Limited. NIS, in addition to security service, provides facility management services including housekeeping, technical maintenance and support etc. across 15 states in India. However, it derives the major portion of its revenues from West Bengal.

Key financial indicators (audited)

NIS	Standalone			Consolidated	
	FY2020	FY2021	FY2022*	FY2020	FY2021
Operating income	275.3	242.3	263.1	310.7	262.7
PAT	12.3	10.7	10.7	14.4	8.2
OPBDIT/OI	8.4%	8.3%	7.6%	9.6%	8.0%
PAT/OI	4.5%	4.4%	4.1%	4.6%	3.1%
Total outside liabilities/Tangible net worth (times)	1.0	0.8	0.9	1.5	1.2
Total debt/OPBDIT (times)	2.0	2.4	3.3	2.4	3.4
Interest coverage (times)	4.5	3.8	4.1	3.9	2.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
CRISIL	CRISIL BB+/Stable (ISSUER NOT COOPERATING*; Migrated from 'CRISIL BBB+/Stable')	May 31, 2022

**Issuer did not cooperate; based on best-available information*

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 04, 2022	Jul 19, 2022	Apr 05, 2021	Feb 12, 2021	Mar 31, 2020
1	Fund based – Term Loans	Long term	13.80	11.46	**[ICRA]BBB+ (Stable)**	-	-	-	-
2	Fund based – Cash Credit	Long term	56.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING***	**[ICRA]BBB+ (Stable)**	**[ICRA]BB+ (Stable) ISSUER NOT COOPERATING***	**[ICRA]BBB+ (Negative)**
3	Non-fund based – Bank Guarantee	Short term	12.00	-	**[ICRA]A2**	**[ICRA]A2 ISSUER NOT COOPERATING***	**[ICRA]A2**	**[ICRA]A4+ ISSUER NOT COOPERATING***	**[ICRA]A2**

**Issuer did not cooperate; based on best available information.*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Term Loans	Simple
Long term - Fund based – Cash Credit	Simple
Short term - Non-fund based – Bank Guarantee	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term Loan-I**	Aug 28, 2020	-	Jul 2022	3.00	[ICRA]BBB+ (Stable)
-	**Term Loan-II**	Nov 22, 2021	-	Nov 2026	10.80	[ICRA]BBB+ (Stable)
-	**Cash Credit**	-	-	-	56.00	[ICRA]BBB+ (Stable)
-	**Bank Guarantee**	-	-	-	12.00	[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	NIS ownership	Consolidation Approach
NIS Facility Management Services Private Limited	100.00%	Full Consolidation
NIS Ace Management Private Limited	99.86%	Full Consolidation
Keertika Academy Private Limited	99.86%	Full Consolidation
Keertika Education & Associates LLP^	99.97%	Full Consolidation
Achilles Resolute Private Limited	51.00%	Full Consolidation

Source: NIS annual report for FY2021; ^NIS has provided a corporate guarantee of Rs. 5.15 crore for loans availed by Keertika Education & Associates LLP

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