March 31, 2020

NIS Management Limited: Ratings reaffirmed; outlook on long-term rating revised to Negative

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+ reaffirmed; outlook revised from Stable to Negative
Non-fund Based- Bank Guarantee	10.00	10.00	[ICRA]A2; reaffirmed
Total	**46.00**	**46.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook on the long-term rating of NIS Management Limited (NIS) to Negative from Stable takes into consideration the decline in its revenues and increased working capital intensity of operations since FY2019, exerting pressure on cash flows. This, in turn, kept the company's working capital utilisation at an elevated level.

The ratings reaffirmation continues to factor in the extensive experience of the promoters and established market position of 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 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. ICRA takes note of an improvement in NIS' net worth in FY2019 aided by equity infusion of Rs. 9.74 crore which kept its gearing comfortable, despite increased debt level.

The ratings, however, are constrained by the intense competition on account of the fragmented nature of the security services and facilities management industry with presence of numerous unorganised players, which restricts pricing flexibility and put pressure on profit margins. The company is also exposed to high geographical concentration risk as a major portion of the turnover is generated from West Bengal.

The Negative outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company's revenue growth is likely to remain muted and the stretch in working capital cycle is likely to continue under the present market scenario.

Key rating drivers and their description

Credit strengths

Long track record of 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 relationship with reputed clientele strengthens operational profile – 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 supports the company's revenue stream and strengthens its operational profile.

Financial profile characterised by healthy RoCE, comfortable capital structure and debt-coverage indicators –The return on capital employed (ROCE) of the company has historically remained healthy on account of asset-light business operations of the company, notwithstanding a decline in the same to 22.82% in FY2019 from 27.68% in the previous year. The company's debt majorly comprises working capital borrowings. Its capital structure continued to remain comfortable with a gearing of 0.77 times as on March 31, 2019, supported by an equity infusion of Rs. 9.74 crore, notwithstanding increased debt level. NIS's debt-coverage indicators remains comfortable, as reflected by interest coverage of 4.20 times (4.82 times in FY2019), total debt/OPBDITA of 1.95 times (2.11 times in FY2019) and NCA/total debt of 28%, (26% in FY2019) respectively in 9M FY2020.

Credit challenges

Decline in revenues and increased working capital intensity of operation since FY2019, exerting pressure on cash flows - NIS' operating income declined by around 3% in FY2019 and is likely to decline further in the current fiscal, on the back of non-renewal of some existing contracts and an adverse market scenario at present. The decline in turnover coupled with increased working capital intensity of operations of the company led to a negative cash flow from operations in FY2019 as well as increased working capital borrowing.

Intense competition on account of the fragmented nature of security services and facilities management industry – The security services and facilities management industry are primarily unorganised and fragmented. Given the low entry barriers, there is considerable headroom for small contractors to provide temporary staffing services to industries. This results in tough competition and put pressure on margins of the players in the industry.

Exposure to geographical concentration risk as the major portion of the turnover is generated from West Bengal – The company's sales are concentrated in eastern India, particularly in West Bengal, from where around 74% of its total revenues were generated in FY2019. Notwithstanding its significant geographical concentration, the company's revenues remain fairly diversified across a large customer base.

Liquidity position: Adequate

NIS' liquidity position remains **adequate**, aided by moderate free cash balance (Rs. 4.7 crore as on March 31, 2019) and limited debt repayment obligation. Nevertheless, its increased working capital intensity of operations, as reflected by net working capital relative to operating income of 31% in 9M FY2020 (28% in FY2019) is likely to exert pressure on liquidity, to some extent. The company's average utilisation of fund-based working capital limit remained high at 88% during September 2018 to January 2020.

Rating sensitivities

Positive triggers –An upgrade in the ratings is unlikely in the near term; however, improvement in liquidity position may lead to a revision in the outlook on the long-term rating from Negative to Stable.

Negative triggers –Pressure on NIS' ratings may arise if the company registers a sizeable decline in turnover and/or if its liquidity position deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial statements of the company

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 called 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 from the erstwhile NIS Management Private Limited. NIS, in addition to security service also provides services like facility management, housekeeping, technical maintenance and support etc. across 17 states in India. The company operates through its 22 offices and has an employee strength of around 16,500 at present.

Key financial indicators

	FY2018 (audited)	FY2019 (audited)	9M FY2020 (prov)
Operating Income (Rs. crore)	280.14	270.55	198.03
PAT (Rs. crore)	11.29	11.37	8.25
OPBDIT/ OI (%)	7.76%	8.32%	8.37%
RoCE (%)	27.68%	22.82%	19.17%
Total Outside Liabilities/Tangible Net Worth (times)	1.60	1.33	1.09
Total Debt/ OPBDIT (times)	1.59	2.11	1.95
Interest Coverage (times)	5.23	4.82	4.20
DSCR	3.98	3.12	3.23

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

	Instrument				Current Rating (FY2020)	Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on 31-Mar -2019	Rating	FY2019	FY2018	FY2017
					31-Mar-20	11-Sep-18	12-May-17	
1	Cash Credit	Long Term	36.00	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Bank Guarantee	Short Term	10.00	-	[ICRA]A2	[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	36.00	[ICRA]BBB+ (Negative)
NA	Bank Guarantee	NA	NA	NA	10.00	[ICRA]A2

Source: NIS Management Limited

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

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