May 24, 2024

Nilons Enterprises Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Term Loans	25.68	25.68	[ICRA]BB+(Stable); reaffirmed
Long-term – Fund based – Cash Credit	59.50	59.50	[ICRA]BB+(Stable); reaffirmed
Short-term – Non-Fund-Based - Others	0.30	0.30	[ICRA]A4+; reaffirmed
Long-term/short-term – Interchangeable Limits	(24.75)	(24.75)	[ICRA]BB+(Stable)/[ICRA]A4+; reaffirmed
Long-term/short-term – Unallocated Limits	14.52	14.52	[ICRA]BB+(Stable)/[ICRA]A4+; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Nilons Enterprise Private Limited (NEPL) favourably factors in its gradual pick-up in revenue in FY2024, led by improved demand from its customers and key strategic changes made by the company. While this rise in sales in the recent months is positive, NEPL's ability to maintain the momentum over a longer period and further improve the profit margins remain to be seen. The ratings favourably consider the established presence of the Nilon's Group and the management's experience in the food industry. Further, NEPL enjoys healthy brand recognition and market position, especially in the North India and has pan-India presence with a strong network of around 4,000 distributors. The ratings further consider NEPL's diversified product profile with continued focus on increasing traction of its high-margin products to strengthen its revenue base and profitability. However, intense competition in the food processing industry and limited value addition in the food products business result in modest margin for NEPL. The company remains exposed to agro-climatic risks, which could affect availability and prices of raw materials, as well as regulatory risks associated with food-related items, which are essential commodities. Given its presence in the food industry, NEPL's quality and reputation-related risks are high, which could impact its pricing strength and business.

The ratings continue to remain constrained by the stretched liquidity position owing to high dependence on working capital borrowings to meet its funding gap on the back of subdued profits. In addition, NEPL has sizeable repayments of Rs. 14.8 crore in FY2025 and Rs. 13.0 crore in FY2026. After a large dip in the top line and profitability in FY2022, NEPL has witnessed a steady growth in its revenue. Its operating income stood at Rs. 388.5 crore in FY2024 on a provisional basis. The operating margins have also improved in FY2024 (7.3%) and have come closer to the pre-Covid levels. A sustained growth in NEPL's revenues and cash profitability in FY2025 would be key points to monitor, which are essential to improve the liquidity position of NEPL (through subsequent improvement in the working capital requirements). An increase in profitability would remain critical to improve the coverage ratio from the current elevated level (Total Debt / Total OPBITDA of 3.6x in FY2024).

The outlook on the long-term rating continues to remain Stable. A reputed brand and a strong distribution channel would help the company maintain and expand its top line.

Key rating drivers and their description

Credit strengths

Long operational track record of the Nilon's Group and experience of the management in the food industry – The Nilon's Group (which comprised NEPL along with Group companies, Sanghavi Foods Private Limited and Sanskar Recipes Private Limited, now merged with NEPL) has a long operational track record. Long experience of NEPL's management helped the company establish its brand.

Healthy brand recognition and market position; pan-India geographical presence with strong distribution network – NEPL enjoys healthy brand recognition and market position pan-India, especially in north India. The company has a strong network of over 4,000 distributors and a direct/indirect reach to around two lakh outlets, which ensure effective market penetration and brand recognition.

Diversified product profile with focus on introducing new variants to strengthen revenue base – NEPL has a diversified product profile that includes pickles, candied fruits, chutneys, jams, ketchups and spices, among others. Such a diversified product profile ensures minimal susceptibility of the company's operations to product-specific risks. The company focuses on increasing traction of its few high-margin products to strengthen its revenue base and profitability.

Revenue recovered in FY2024, trend likely to continue in FY2025 – NEPL had reported net losses in FY2022 and FY2023. However, in FY2024, the company reported a healthy growth in revenues and earnings on the back of a gradual pick-up in demand of packaged foods among consumers, following improvement in the purchasing power. NEPL reported revenue of ~Rs. 388.5 crore in FY2024 on a provisional basis against Rs. 363.9 crore in FY2023, underlining the recovery in the top line. Its operating margins were lower (7.3% in FY2024) than the pre-Covid levels of 9-10% as a full pass through of rising input costs is expected to be spread over a longer period.

Credit challenges

Stretched liquidity position; expected to improve in FY2025 – The company's liquidity remained stretched in FY2024 owing to increased dependence on working capital borrowings to meet the funding gap due to subdued profits and negative free cash flows. Over reliance on short-term funds has resulted in NEPL reporting an asset-liability mismatch. The company's ability to reduce its dependence on short-term funds and further improve the profit margins will remain critical from the credit perspective. ICRA, however, notes that NEPL has witnessed early signs of an uptick in margins in FY2024, which, if sustained over a longer period, is expected to lead to a sequential improvement in liquidity. This, along with a reduction in the working capital intensity, would remain crucial to bring back the company's retained cash flows in the positive territory in FY2025.

Moderately high working capital intensity – NEPL exhibits moderately high working capital intensity, as inherent in the industry. The company recorded working capital intensity of 23.4% in FY2024. NEPL undertakes seasonal procurement of raw materials, which results in high inventory level at the year-end, leading to elevated working capital requirements.

Intense competition from both organised as well as unorganised players in the food industry – NEPL operates in the food industry, which is characterised by the presence of several organised as well as unorganised players. Hence, it has to compete with numerous players in the domestic market, which limits its ability to command premium pricing for its products. NEPL plans to focus more on high-margin products, which could strengthen its profitability and lend some comfort against the risk pertaining to intense competition from its peers.

Profitability remains vulnerable to raw material procurement prices – Given the commoditised nature of the key raw materials procured by NEPL, its profitability remains vulnerable to any fluctuation in the prices of the same. The company has limited scope for passing on the raw material price fluctuations to its customers, which could deteriorate its margins in case of a steep increase in procurement costs.

Stringent regulatory environment in the food industry – The food industry is subject to intense regulations. As the company is present in the food sector, its quality and reputation-related risks are high. Any rapid change in the regulation could have a large impact on the players operating in the industry.

Liquidity position: Stretched

The liquidity position of the company remains stretched with limited headroom in the working capital limits. The retained as well as free cash flows of the company were negative in FY2024. The funding gap is met through an increase in the working capital borrowings from non-banking financial companies (NBFCs). ICRA, however, notes that NEPL has witnessed early signs of an uptick in margins in FY2024 so far, which, if sustained over a longer period, is expected to lead to a sequential improvement in liquidity. This, along with a reduction in the working capital intensity, would remain crucial to bring back the company's retained cash flows in the positive territory in FY2025.

Rating sensitivities

Positive factors – A significant growth in revenues and profits, leading to an improvement in its liquidity profile and credit metrics, on a sustained basis, will remain a positive rating trigger. Specific credit metrics that could lead to ratings upgrade include Total Debt/OPBDITA of less than 3.0 times on a sustained basis.

Negative factors – The ratings could be downgraded if the entity witnesses a deterioration in its revenue base and weak profitability, on a sustained basis, leading to continued pressure on the liquidity position and credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Promoted by the Jalgaon (Maharashtra)-based Sanghavi family, NEPL is involved in the manufacturing and marketing of a wide range of food products such as pickles, tooty-fruity, sauces, vermicelli, macaroni, tomato ketchup and jams, spices, instant mixes, and cooking pastes. The company markets all its products under the brand name of Nilon's. The company has five manufacturing units out of which four are in Maharashtra and one in Assam. The company has a pan-India presence for marketing its products through a strong network of over 4,000 distributors.

Key financial indicators (audited)

Nilons Enterprises Private Limited	FY2022	FY2023	FY2024*
Operating income	312.9	363.9	388.5
PAT	-32.0	-5.8	4.5
OPBDIT/OI	-5.6%	3.3%	7.3%
PAT/OI	-10.2%	-1.6%	1.2%
Total outside liabilities/Tangible net worth (times)	1.0	1.3	1.4
Total debt/OPBDIT (times)	-3.6	7.5	3.6
Interest coverage (times)	-3.2	1.5	2.1

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore * Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on April 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				May 24, 2024	-	Feb 16, 2023	May 30, 2022	-
1 Fund based – Term Loans	Long-term	25.68	25.68	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	-
2 Fund based – Cash Credit	Long-term	59.50	-	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	-
3 Non-Fund-Based - Others	Short-term	0.3	-	[ICRA]A4+	-	[ICRA]A4+	[ICRA]A3	-
4 Interchangeable Limits	Long-term/ Short-term	(24.75)	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BBB- (Negative) /[ICRA]A3	-
5 Unallocated Limits	Long-term/ Short-term	14.52	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BBB- (Negative)/ [ICRA]A3	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loan	Simple
Long-term – Fund-based – Cash Credit	Simple
Short-term – Non-fund Based – Others	Very simple
Long-term/ Short-term – Interchangeable Limits	Simple
Long-term/ Short-term – Unallocated Limits	Not applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund based – Term Loans	FY2023	10.50%	FY2028	25.68	[ICRA]BB+ (Stable)
NA	Long-term – Fund based – Cash Credit	NA	11.00%	NA	59.50	[ICRA]BB+ (Stable)
NA	Short-term – Non-Fund-Based - Others	NA	NA	NA	0.30	[ICRA]A4+
NA	Long-term/short-term – Interchangeable Limits	NA	NA	NA	(24.75)	[ICRA]BB+ (Stable)/[ICRA]A4+
NA	Long-term/short-term – Unallocated Limits	NA	NA	NA	14.52	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: Company

Annexure II: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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