June 28, 2024

Needle Industries (India) 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 – CC	24.00	24.00	[ICRA]B+ (Stable); reaffirmed
Long term fund based – Standby line of Credit	1.30	1.30	[ICRA]B+ (Stable); reaffirmed
Long term fund based facility	1.00	1.00	[ICRA]B+ (Stable); reaffirmed
Short term fund based – Interchangeable facility	(28.00)	(24.00)	[ICRA]A4 reaffirmed
Short term non-fund based – LC/BG (Sublimit)	(1.00)	(1.00)	[ICRA]A4 reaffirmed
Short term non-fund based – Forward cover	0.50	0.50	[ICRA]A4 reaffirmed
Short term non-fund based facility	2.00	2.00	[ICRA]A4 reaffirmed
Long term/ Short term – Unallocated	0.45	0.45	[ICRA]B+ (Stable) /[ICRA]A4; reaffirmed
Total	**29.25**	**29.25**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of rating for the bank lines of Needle Industries (India) Private Limited ('NIIPL'/'the company') factors in the recovery in its operating performance in the last few months and further improvement anticipated in the same going forward aided by its revenue enhancement and cost-optimisation measures. The company's revenues declined by 3.1% YoY to Rs. 123.7 crore, impacted by the export slowdown, partly stemming from normalisation of demand for art and craft products following a spike during the Covid-19 pandemic. The company's operating profit margins also remained subdued, lower than the historical levels of ~5% in FY2021 and FY2022, impacted by unfavorable product mix and inability to pass through the price increases, among other reasons. The company has incurred net loss of Rs. 5.7 crore and cash loss of 3.5 crore in FY2024[1]. However, it improved from FY2023 levels, and is expected to improve further going forward, aided by revenue enhancement and cost-optimisation measures. The weak accruals in FY2024 have cascaded into stretched coverage metrics and liquidity. The company's DSCR stood at 0.1 times for FY2024. NIIPL's liquidity position is stretched with minimal cash and bank balances of Rs. 2 crore and limited buffer of Rs. 0.9 crore in working capital limits against sanctioned limits as on March 31, 2024. However, ICRA expects the coverage metrics and liquidity to improve in FY2025, with improvement in accruals. The promoters also remain committed to extending timely and adequate financial support, on need basis, to meet the company's operational and financial commitments.

The ratings remain supported by NIIPL's established position in the organised haberdashery market, being one of the largest manufacturers in India, with more than seven decades of presence. Further, NIIPL enjoys relatively low customer and geographical concentration risks as its clientele is spread over 50 countries. However, NIIPL faces stiff competition from Chinese products and unorganised market players in both the global and domestic markets.

[1] As per unaudited financials

Key rating drivers and their description

Credit strengths

One of the largest manufacturers of haberdashery products in India with an established brand – The company has established presence in the haberdashery industry spanning more than seven decades. It has one of the largest manufacturing facilities for needles in Ooty, India with a capacity to manufacture 2.88 crore knitting pins and 175 crore hand-sewing needles, and ~800 employees. It markets its products under its own brand, 'Pony Needles', which is registered across 50 countries.

Low customer and geographical concentration risks – The company secures orders from customers across 50 countries and the geographical concentration is relatively low with no single region contributing to more than 20% of revenues. The top two regions in terms of export revenue share are – UK/Europe with 27% contribution and USA/South America with 15% of the top line during FY2024. Further, the company's customer profile is well diversified with around 300 clients in its portfolio. Accordingly, it has relatively low customer concentration with only 23% of revenues from top five customers during FY2024. NIIPL's healthy customer and geographical diversification helps mitigate the impact of loss of clients/region-specific risks on the company's revenues to an extent.

Credit challenges

Slowdown in exports has impacted revenues and margins in FY2024 – The company's revenues declined by 3.1% YoY to Rs. 123.7 crore, impacted by the export slowdown, partly stemming from normalisation of demand for art and craft products following a spike during the Covid-19 pandemic. The company's operating profit margins also remained subdued, lower than the historical levels of ~5% in FY2021 and FY2022, impacted by unfavourable product mix and inability to pass through the price increases, among other reasons. The company has incurred net loss of Rs. 5.7 crore and cash loss of 3.5 crore in FY2024[2]. However, it improved from FY2023 levels, and is expected to improve further going forward, aided by revenue enhancement and cost-optimisation measures.

Stretched coverage metrics and liquidity position – The weak accruals in FY2024 have cascaded into stretched coverage metrics and liquidity. The company's DSCR stood at 0.1 times for FY2024[2]. NIIPL's liquidity position is stretched with minimal cash and bank balances of Rs. 2 crore and limited buffer of Rs. 0.9 crore in working capital limits against sanctioned limits as on March 31, 2024. ICRA expects the coverage metrics and liquidity to improve in FY2025, with improvement in accruals. The promoters also remain committed to extending timely and adequate financial support, on need basis, to meet the company's operational and financial commitments.

Revenues susceptible to competition from Chinese products and unorganised players – Though the company's product reach is almost around the globe, it faces stiff competition from the Chinese products and unorganised players in both domestic and export markets. Intense competition restricts its revenue growth and affects its pricing flexibility as well as profit margins to an extent. However, the established presence of NIIPL's 'Pony Needles' brand across countries in the haberdashery segment provides comfort to an extent.

Liquidity position: Stretched

The company's liquidity position is stretched, impacted by its weak operating performance. The company had minimal cash and bank balances of Rs. 2.0 crore and limited buffer of Rs. 0.9 crore in working capital limits against the sanctioned limits as on March 31, 2024. The working capital utilisation was at ~86% as against the sanctioned limits power in the period from June 2023 to May 2024. As against these sources of cash, the company had debt repayment obligations of Rs. 1.3 crore in FY2025, Rs. 1.1 crore in FY2026 and Rs. 1.0 crore in FY2027 on the existing loans and minimal maintenance capex over the medium

[2] As per unaudited financials

term. The promoters remain committed to extending timely and adequate financial support, on need basis, to meet the company's operational and financial commitments.

Rating sensitivities

Positive factors – Improvement in the company's scale of operations and profitability on a sustained basis could trigger an upward revision in ratings. Specific credit metrics include interest cover above 2.0 times on sustained basis.

Negative factors – Pressure on the company's ratings could arise if there is a decline in revenues and profitability or deterioration in liquidity position. Specific metric for downgrade includes DSCR less than 1.0 time on sustained basis.

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 profile of Needle Industries (India) Private Limited

About the company

Incorporated in 1949, NIIPL manufactures hand-sewing needles, knitting pins and other haberdashery products catering to the hand segment of the sewing-needle industry. These apart, it manufactures an extensive range of surgical suture needles, catering to the medical sector. The company sells its haberdashery products under the brand, 'Pony Needles', both in domestic and international markets; around 51% of FY2024 revenues was from the international markets. It also runs a fuel station from which it derived ~27% of its total revenues in FY2024.

The company was a subsidiary of a large British manufacturer, Needle Industries Limited, Redditch, England. In 1979, the complete control of the company was transferred to the hands of an Indian management. In 1989, Mr. T. A. Devagnanam, the current Managing Director, took over its operations.

Key financial indicators

NIIPL Standalone	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	127.7	123.7
PAT	-9.7	-5.7
OPBDIT/OI	-6.6%	0.1%
PAT/OI	-7.6%	-4.6%
Total outside liabilities/Tangible net worth (times)	1.8	2.2
Total debt/OPBDIT (times)	-3.6	211.5
Interest coverage (times)	-2.4	0.0

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

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 of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 28, 2024	-	March 27, 2023	December 23, 2021
1 Fund based – CC	Long term	24.00	-	**[ICRA]B+ (Stable)**	-	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)
2 Fund based – Standby line of Credit	Long term	1.30	-	**[ICRA]B+ (Stable)**	-	[ICRA]B+ (Stable)	-
3 Fund based – Others	Long term	1.00	-	**[ICRA]B+ (Stable)**	-	[ICRA]B+ (Stable)	-
4 Fund based Interchangeable facility	Short Term	(24.00)	-	**[ICRA]A4**	-	[ICRA]A4	[ICRA]A4
5 Non fund based - LC/BG (Sublimit)	Short Term	(1.00)	-	**[ICRA]A4**	-	[ICRA]A4	-
6 Non fund based- Forward cover	Short Term	0.50	-	**[ICRA]A4**	-	[ICRA]A4	-
7 Non fund based facility	Short Term	2.00	-	**[ICRA]A4**	-	[ICRA]A4	[ICRA]A4
8 Unallocated	Long term/ Short term	0.45	-	**[ICRA]B+ (Stable)/ [ICRA]A4**	-	[ICRA]B+ (Stable)/ [ICRA]A4	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund based – CC	Simple
Long term Fund based – Standby line of Credit	Simple
Long term Fund based facility	Simple
Short term Fund based – Interchangeable facility	Simple
Short term Non fund-based – LC/BG (Sublimit)	Very Simple
Short term Non fund-based – Forward cover	Simple
Short term Non fund-based facility	Very Simple
Long term/ Short term – Unallocated	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	**Cash credit**	NA	NA	NA	24.00	[ICRA]B+ (Stable)
NA	**Standby line of credit**	NA	NA	NA	1.30	[ICRA]B+ (Stable)
NA	**Dealer financing Scheme**	NA	NA	NA	1.00	[ICRA]B+ (Stable)
NA	**Fund based – Interchangeable facility (Sublimit)**	NA	NA	NA	(24.00)	[ICRA]A4
NA	**Non fund-based – LC/BG (Sublimit)**	NA	NA	NA	(1.00)	[ICRA]A4
NA	**Forward cover**	NA	NA	NA	0.50	[ICRA]A4
NA	**Non fund based facilities**	NA	NA	NA	2.00	[ICRA]A4
NA	**Unallocated**	NA	NA	NA	0.45	[ICRA]B+ (Stable)/ [ICRA]A4

Source: Company

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

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About ICRA Limited:

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