September 06, 2024

New Horizons 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 – Working Capital Facilities	45.96	45.96	[ICRA]BB (Stable), reaffirmed
Long-term Fund-based – Term Loan	6.89	6.21	[ICRA]BB (Stable), reaffirmed
Short-term Non-Fund based – Forward Contract	0.60	0.60	[ICRA]A4+, reaffirmed
Long-term/ Short-term – Unallocated Limits	1.55	2.23	[ICRA]BB (Stable)/ [ICRA]A4+, reaffirmed
Total	**55.00**	**55.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into consideration the long experience of the promoters in the industrial safety products industry and the established track record of New Horizons Private Limited (NHPL) in this line of business. The ratings also favourably consider NHPL's long relationship with its customers, which ensures repeat orders and reflects acceptable product quality. However, ICRA notes that loss of business from few of its existing customers, due to significant competition, resulted in a decline in its top line in FY2024 [Provisional – (P)] over the previous fiscal. Winning back some of the lost orders and addition of new clients are likely to lead to a revenue growth of more than 10% in FY2025, on a YoY basis.

The ratings, however, continue to remain constrained by NHPL's subdued financial risk profile, which is characterised by a leveraged capital structure and low debt coverage indicators. The ratings are also impacted by the intense competition in the industrial safety products industry and low bargaining power with large clients, which limit the company's pricing flexibility and keep margins under check. The ratings are also constrained by NHPL's high working capital intensity of operations, exerting pressure on its liquidity. The ratings also factor in any adverse change in Government regulations, which could potentially impact the competitiveness of its products as well as the business.

The Stable outlook on the long-term rating reflects ICRA's opinion that NHPL will continue to maintain its business position and profitability, going forward.

Key rating drivers and their description

Credit strengths

Long experience of the promoters and established track record of operations in the industrial safety products – NHPL has been involved in the manufacturing of industrial safety products since 1976. Moreover, the promoters have a long experience in the industry. The entire portion of the company's produce is exported to the US, European nations and others. These factors strengthen its operational profile.

Established relationship with customers ensures repeat orders – NHPL has a reputed and established client base across various countries, which generates repeat orders and reflects its acceptable product quality. This also provides some revenue visibility. However, ICRA notes that the company lost few orders from some of its existing customers to competitors, which led to a decline in the turnover of the company to around Rs. 92 crore in FY2024 (P) from around Rs. 114 crore in FY2023. Nevertheless, the company is likely to win back some lost orders and add new clients in the current fiscal, which are likely to lead to a revenue growth of more than 10% in FY2025, on a YoY basis.

Credit challenges

Very competitive business segment exerts pressure on margin – Intense competition from organised and unorganised players in the international safety wear market, low value-added nature of its products and limited bargaining power against large overseas clientele limit NHPL's pricing flexibility. This keeps its margins under pressure despite export incentives received from the Government of India (GoI). The operating profit margin (OPM) of the company remained low in the range of 3-4% over the past few years. The net profit margin (NPM) also remained low at around 1% during the same period owing to sizeable interest costs. The company's margins would continue to remain at a low level, going forward.

Exposed to regulatory risks – NHPL generates almost the entire portion [99% in FY2024 (P)] of its revenue from export sales, which exposes it to the foreign exchange rate fluctuation risk. However, partial natural hedge (in the form of imports) and forward cover largely mitigate such risk. Moreover, as an exporter, NHPL is entitled to export incentives and interest subvention under various schemes run by the GoI. Therefore, revenues and profitability of all the players, including NHPL, in export-oriented businesses remain susceptible to the regulatory risks such as changes in the duty structure, rate of export incentives etc.

Leveraged capital structure and low coverage indicators – The capital structure of NHPL continued to remain leveraged over the years owing to high dependence on working capital borrowings and a relatively lower net worth base. The gearing of the company stood high at 1.9 times as on March 31, 2024 (provisional). High gearing and low absolute profits kept the coverage indicators subdued. Despite some improvement, the capital structure of the company would continue to remain leveraged, going forward. The coverage indicators are likely to improve marginally due to a decline in the debt level of the company.

High working capital intensity of operations, adversely impacting liquidity – The working capital intensity of operations of NHPL remains high, owing to a stretched receivable cycle and high stocking requirements, which adversely impact its liquidity position. Moreover, a significant increase in raw material holding at the year-end led to a sharp rise in the working capital intensity, as reflected by the net working capital relative to the operating income (NWC/OI) of 58% in FY2024 (P) from 42% in FY2023. Nevertheless, sizeable undrawn lines of credit extend liquidity cushion. Although some improvement is likely in the current fiscal, the company's working capital intensity of operations would continue to remain at an elevated level, going forward.

Liquidity position: Adequate

NHPL generated negative cash flow from operations in FY2024 (P) due to a sharp rise in the working capital intensity, despite a decline in the scale of operations. NHPL is likely to generate positive cash flow from operations in the current fiscal, driven by a likely moderation in the working capital intensity of operations. The average fund-based working capital utilisation of the company stood at around 73% during the last 15 months, ended in July 2024, reflecting adequate buffer for future working capital requirement. The company has long-term debt repayment obligations of around Rs. 2.45 crore in the current fiscal. In view of sizeable cash flow from operations, undrawn working capital limits and absence of any major planned capital expenditure programme, ICRA expects the overall liquidity position of the company to remain adequate in the near term.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of NHPL if there is a substantial increase in earnings and improvement in credit metrics. Specific metric that could lead to ratings upgrade includes DSCR above 1.3 times on a sustained basis.

Negative factors – Pressure on NHPL's ratings could arise if there is a material decline in earnings or an increase in the working capital intensity of operations, affecting its liquidity, on a 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 statements of the company

About the company

New Horizons Private Limited (NHPL) was incorporated in 1976 as a private limited company. It was converted into a public limited company in 1996 before being converted into a private limited company again in 2015. NHPL manufactures industrial safety products, which are entirely exported to the US, European nations and others. The company primarily manufactures leather gloves along with leather apron, leg guard, belt, arm protector etc. The company has two manufacturing facilities in Kolkata. NHPL has an installed capacity to produce 80 lakh pair of leather gloves per annum. The company also has a tannery with a capacity of 15 lakh sq. ft. per month at Kolkata Leather Complex.

Key financial indicators (audited)

NHPL, Standalone	FY2022	FY2023	FY2024*
Operating income	126.5	121.3	97.9
PAT	1.4	1.1	1.0
OPBDIT/OI	3.6%	3.7%	3.8%
PAT/OI	1.1%	0.9%	1.0%
Total outside liabilities/Tangible net worth (times)	3.1	2.5	2.6
Total debt/OPBDIT (times)	10.7	8.9	11.9
Interest coverage (times)	2.0	1.5	1.2

*Source: New Horizons Private Limited, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Sep 6, 2024	Aug 8, 2023	-	-
1	**Fund-based Working Capital Facilities**	Long Term	45.96	**[ICRA]BB (Stable)**	[ICRA]BB (Stable)	-	-
2	**Term Loan**	Long Term	6.21	**[ICRA]BB (Stable)**	[ICRA]BB (Stable)	-	-
3	**Non-Fund based – Forward Contract**	Short Term	0.60	**[ICRA]A4+**	[ICRA]A4+	-	-
4	**Unallocated Limits**	Long Term/ Short-term	2.23	**[ICRA]BB (Stable)/ [ICRA]A4+**	[ICRA]BB (Stable)/ [ICRA]A4+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Facilities	Simple
Long-term fund-based – Term Loan	Simple
Short-term non-fund based – Forward Contract	Very Simple
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	Working Capital Facilities	-	-	-	45.96	[ICRA]BB (Stable)
NA	WCTL/ CGECL 1	FY2021	-	FY2025	1.71	[ICRA]BB (Stable)
NA	WCTL/ CGECL 2	FY2022	-	FY2027	4.50	[ICRA]BB (Stable)
NA	Forward Contract	-	-	-	0.60	[ICRA]A4+
NA	Unallocated Limits	-	-	-	2.23	[ICRA]BB (Stable)/ [ICRA]A4+

Source: New Horizons Private Limited

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

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.

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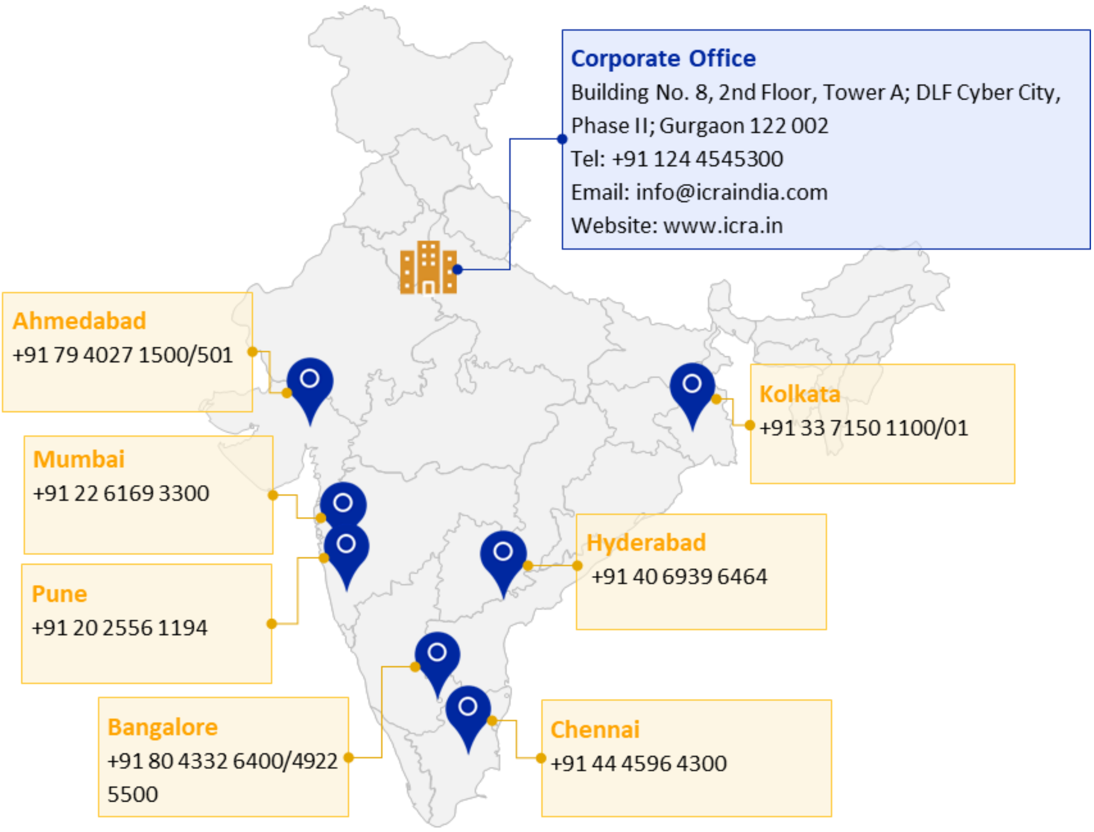

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