

## Needle Industries (India) Private Limited

March 14, 2019

### Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long term: Fund based – Cash credit	25.50	25.50	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Negative)
Short term: Fund based – Interchangeable with Cash Credit	25.50 <sup>^</sup>	25.50 <sup>^</sup>	[ICRA]A4+; reaffirmed
Short term: Non-fund based	3.75	3.75	[ICRA]A4+; reaffirmed
<b>Total</b>	<b>29.25</b>	<b>29.25</b>	

\*Instrument details are provided in Annexure-1; <sup>^</sup>interchangeable with Cash Credit facilities

### Rationale

The rating downgrade factors in the continuous revenue decline in the haberdashery product segment between FY2015 and FY2018 owing to weak global demand and the net losses incurred by Needle Industries (India) Private Limited (Needle Industries) between FY2016 and FY2018 led by under absorption of its fixed overheads. The ratings are also constrained by the weak debt coverage metrics with the interest coverage ratio at 0.2 times and debt service coverage ratio at 0.6 times in FY2018. The ratings also continue to consider the stiff competition from China in both the global and domestic market, which restricts the company's revenue growth, pricing flexibility and profit margins.

However, the ratings continue to take comfort from its established position in the organised haberdashery market, wherein it is one of the largest manufacturers in India. The ratings draw comfort from the experienced management team, which has nearly seven decades of expertise in the industry and the established presence of their brand 'Pony Needles' across the globe. It enjoys low customer and geographical concentration risks with its customer base is spread over ~150 countries. The rating also draws comfort from the company's healthy capital structure with low gearing of 0.6 times as at March 31, 2018.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from the healthy reputation of its Pony brand in both global and domestic markets. The outlook may be revised to Positive if there is a significant growth in the operating income (OI) and margins, leading to improved debt coverage indicators. The outlook may be revised to Negative if there is a decline in OI and margins, leading to weakening of debt protection metrics and liquidity profile.

### Key rating drivers

### Credit strengths

**One of the largest manufacturers of haberdashery products in India with an established trademark brand** - The company has one of the largest manufacturing facilities for needles in India with a capacity to manufacture 2.88-crore knitting pins and 175-crore hand-sewing needles. It markets its products under its own brand, Pony Needles, which is a

registered brand across 150 countries. The manufacturing facility is located in Ooty, Tamil Nadu, and employs ~800 employees. The management has significant experience in the needle manufacturing business spanning more than seven decades.

**Low customer and geographical concentration risks with widespread customer base** - The company caters to customers across 150 countries with primary destinations being Europe and America. The export sales constitute nearly half of its revenues. The geographical concentration is low with the top 10 countries constituting less than 10% of the revenues in the past two fiscals. In terms of customers, it has around 300 customers in its portfolio, with around 25% of revenues coming from the top 10 customers in the past two fiscals.

**Healthy capital structure** - The company's capital structure remained healthy supported by accumulated reserves with a net worth of Rs. 41.9 crore as on March 31, 2018. The debt is primarily working capital borrowings and the gearing remained low at 0.6 times as on March 31, 2018.

## Credit challenges

**Continuous decline in revenues from haberdashery products witnessed in the past four fiscals** - The haberdashery product segment, mainly hand-sewing needles and knitting pins, saw continuous degrowth in revenues during FY2015-FY2018 owing to weak demand from the global market, wherein export sales constituted ~50% of its revenues. The demand from domestic markets was also affected in FY2018 by demonetisation as sales to domestic dealers were on a cash-and-carry basis.

**Continuous net losses over the past three fiscals with cash loss in FY2018** - The decline in production levels following weak order flow led to under-absorption of fixed overheads over the last four fiscals, where the company reported net losses during FY2016-FY2018. It also incurred cash losses in FY2018, which led to deterioration in the debt coverage metrics. The interest coverage ratio declined to 0.2 times in FY2018 from 1.1 times in FY2017, and the debt service coverage ratio declined to 0.6 times in FY2018 from 1.2 times in FY2017.

**Stiff competition from China in both global and domestic markets** - Though the company's product reach is almost around the globe, it faces stiff competition from Chinese products in both domestic and export markets. Intense competition has not only restricted its revenue growth but also affects its pricing flexibility and profit margins to an extent.

## Liquidity position

The company witnessed negative fund flow from operations in FY2018 due to net losses and it is likely to remain negative in FY2019 as well. It has a term loan repayment obligation of Rs. 0.66 crore each in FY2019 and FY2020 and the free cash flow is likely to remain insufficient to meet the repayment obligation. Its working capital limits are also highly utilised with its average utilisation being around 80% during January 2018 to December 2018. However, the liquidity is backed by a free cash balance of Rs. 2.2 crore held in foreign currency (EEFC) account as on February 28, 2019.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	-
Consolidation / Standalone	Based on standalone financials statements

## About the company

Incorporated in 1949, Needle Industries manufactures hand-sewing needles, knitting pins and other haberdashery products catering to the hand segment of the sewing-needle industry. These apart, the company also 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 the domestic and international markets, with around 50% of the revenues derived from the international markets. It also runs a fuel station from which it derived ~20% of its total revenues in FY2018.

The company was a subsidiary of a large British manufacturer, Needle Industries Limited, Redditch, England. In 1979, its complete control was transferred to the hands of an Indian management. In 1989, the promoter's son Mr. T. A. Devagnanam, the current Managing Director, took over the operations of the company.

In FY2018, it reported a net loss of Rs. 4.3 crore on an OI of Rs. 109.8crore, as compared to a net loss of Rs. 1.4 crore on an OI of Rs. 109.7crore in the previous year.

## Key financial indicators (audited)

	FY2017	FY2018
OI (Rs. crore)	109.7	109.8
PAT (Rs. crore)	-1.4	-4.3
OPBDIT/OI (%)	2.6	0.5
RoCE (%)	0.6	-1.2
Total Debt/TNW (times)	0.5	0.6
Total Debt/OPBDIT (times)	7.8	39.8
Interest Coverage (times)	1.1	0.2

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on date (Rs.crore)	Date & Rating Mar 2019	Date & Rating in FY2018 Mar 2018	Date & Rating in FY2017 May 2017	Date & Rating in FY2016 April 2016	
1	Cash Credit	Long Term	25.50	-	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	Packing Credit	Short Term	(25.50) *	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+
3	Letter of Credit and Bank Guarantee	Short Term	3.75	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+

\*interchangeable with Cash Credit facilities

### 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](http://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	-	-	-	25.50	[ICRA]BB(Stable)
NA	Packing credit	-	-	-	(25.50)	[ICRA]A4+
NA	Letter of credit and Bank guarantee	-	-	-	3.75	[ICRA]A4+

Source: Needle Industries

## ANALYST CONTACTS

**K. Ravichandran**

+91 44 45364301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**R. Srinivasan**

+91 44 45964315

[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Nikhil Mathew**

+91 80 49225569

[nikhil.mathew@icraindia.com](mailto:nikhil.mathew@icraindia.com)

**Aishwaryaa A**

+91 80 4922568

[aishwaryaa.a@icraindia.com](mailto:aishwaryaa.a@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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