

Nikhil Adhesives Limited

Instrument	Amount	Rating Action
Fund Based Cash Credit Limits	Rs. 20.00 crore	[ICRA]BB+ (Stable) downgraded
Non Fund Based Letter of Credit and Bank Guarantee Limits	Rs. 70.00* crore	[ICRA]A4+ downgraded
Proposed Fixed Deposit programme	Rs. 3.50 crore	MB+ downgraded

**consists LC(Foreign) Buyers Credit sublimit of Rs. 45.00 crore, Bank Guarantee sublimit of Rs. 4.00 crore, Buyers Credit sublimit of Rs. 5.50 crore and sales invoice discounting sublimit of Rs. 5.00 crore rated [ICRA]A4+ and fund based overdraft sublimit of Rs. 3.00 crore and cash credit sublimit of Rs. 1.00 crore rated [ICRA]BB+ (Stable)*

ICRA has downgraded the long term rating to [ICRA]BB+ (pronounced ICRA double B plus) from [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 20.00 crore¹ fund based limits and has also downgraded the short term rating to [ICRA]A4+ (pronounced ICRA A four plus) from [ICRA]A3 (pronounced ICRA A three) to the Rs. 70.00 crore non-fund based limits of Nikhil Adhesives Limited (NAL)[†]. The outlook on the long term rating has been revised from negative to stable.

ICRA has also downgraded the medium term rating to MB+ (pronounced M B plus) from MA- (pronounced M A minus) to the Rs. 3.50 crore proposed fixed deposit programme of NAL.

The ratings downgrade of Nikhil Adhesives Limited (NAL) takes into account the asset-liability mismatch caused by unfavourable repayment schedule of term loans availed and the company's weak profitability as a result of the adverse cost structure which is unlikely to be corrected in the near term. As the crude oil prices fell sharply, the sales realisations also declined as a trail effect. Widening of differential between the procurement price and the current market price, has led to shrinkage of earnings in trading activities while the escalating sales discount/dealers margins were not neutralized by increase in realizations. This translated into decline in operating margins which stood at 3.79% in FY2015 as against 5.41% in FY2014. Further, the company being a net importer, has incurred net forex loss of Rs. 1.42 crore in FY2015 and Rs. 1.56 crore in 9M FY2016 in a dollar appreciating scenario which has adversely impacted the net margins. Subsequently, the debt service coverage indicator continued to remain at suppressed levels (less than 1x) in FY2015 and 9MFY2016 in view of thin profits available to service the External Commercial Borrowings and Fixed deposits repayments while the high interest expense has weakened the interest coverage indicator. The ratings are also constrained by the high total outside liabilities (TOL) to Tangible Network (TNW) ratio of 6.80x due to high reliance on external borrowings as well as creditors funding and the competitive pressures in the industry with stiff competition from the organized and unorganized players.

The ratings, however, continue to favourably factor in experience of the directors, and the company's established presence in the emulsions and adhesives business, moderate brand recognition, established distribution network and customer profile in the paint industry. The ratings further factor in the moderately diversified product portfolio comprising paint emulsions, textile emulsions, adhesives and construction chemicals, with presence in both, industrial as well as consumer segments.

About the Company

Nikhil Adhesives Limited (NAL) is engaged in manufacturing of industrial and consumer chemical products like emulsions, adhesives, binders, thickeners and construction chemicals since 1992. The company is also engaged in trading of chemicals. NAL has three manufacturing facilities located at Dahanu in Maharashtra, Silvassa and Dahej in Gujarat. NAL is a company listed on Bombay Stock Exchange.

¹ 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



Recent results

NAL recorded a net profit of Rs. 0.38 crore on an operating income of Rs. 254.40 crore for the year ending March 31, 2015 and a net profit of Rs. 1.26 crore on an operating income of Rs. 202.69 crore for the nine month period of FY2016 ending December 31, 2015 (provisional).

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