

NMK Textile Mills (India) Private Limited

Instrument	Amount	Rating Action
Long Term, Fund Based Limits – Cash Credit	Rs.1.00 crore	[ICRA]BBB- (Stable); re-affirmed
Short Term, Fund Based Limits – Packing credit	Rs.10.50 crore	[ICRA]A3; re-affirmed
Short Term, Fund Based Limits – Foreign Bills payable	(Rs.6.00 crore)*	[ICRA]A3; re-affirmed
Short Term, Fund Based Limits – Foreign Bill discounting	Rs.4.00 crore	[ICRA]A3; re-affirmed
Short Term, Non- Fund Based Limits – Letter of Credit	Rs.7.15 crore	[ICRA]A3; re-affirmed

*100% interchangeability with packing credit limit

ICRA has re-affirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) assigned to the Rs.1.00 crore¹ fund-based facilities of NMK Textile Mills (India) Private Limited (NMK or 'the company')². ICRA has also re-affirmed the short-term rating of [ICRA]A3 (pronounced ICRA A three) assigned to the Rs.14.50 crore short-term fund based facilities and Rs.7.15 crore non-fund based facilities of the company. The outlook on the long-term rating is 'Stable'.

The ratings re-affirmation continues to favourably factor in the established experience of NMK's promoters in the textile industry. The ratings also take into account the strong ties that the company has developed with its key customers, comprising prominent retail outlets, over the years that has resulted in repeat orders. NMK is eligible to receive duty drawback and other export incentives on its exports, which support the company's profits. Furthermore, the ratings also factor in the robust growth in revenues registered by the company at a CAGR of 27.78% during FY2012–FY2016.

The ratings, however, continue to remain constrained by the company's relatively moderate operating margin, arising from the limited value addition in processing semi-finished fabrics. NMK also trades in bed linen (~27% of revenues in FY2016), which further constrains its margins. The ratings are, moreover, constrained by NMK's working capital intensive operations arising from its long manufacturing cycle and elongated credit extended by the company to customers. NMK's capital structure remains moderately leveraged as reflected by a gearing of 1.34 times as on 31st March 2016 on the back of external borrowings availed for funding its working capital requirements. Additionally, the company also relies on its creditors to fund its working capital operations, which coupled with the high debt levels, resulted in a TOL/TNW of 2.86 times as on 31st March 2016.

With ~99% of the revenues contributed by exports, the company's margins remain vulnerable to volatility in foreign currency exchange rates. However, NMK hedges 70% of its exposure using forward covers, which coupled with the natural hedge provided by imports (~28% in FY2016) mitigates the forex risk to an extent. The ratings also take into account NMK's presence in the highly fragmented textile industry, characterised by intense competition from well-established domestic and international players in the premium segment, which limits its pricing flexibility.

ICRA expects NMK's revenues to remain stable and increase by 1% in FY2017 over that in FY2016. The revenue growth is expected to remain subdued on the back of sluggish demand for cotton made-ups that the company is currently witnessing, coupled with the expected decline in its trading operations. NMK's profits are, however, expected to improve on the back of an increase in the value additive manufacturing operations. The company's capital structure is consequently expected to improve, following an increase in the net-worth on the back of an increase in retained profits. The profits will, however, continue to remain restricted by competitive pressures, and will further remain susceptible to any adverse fluctuations in foreign exchange rates and any adverse regulatory changes or changes in export incentives. Accordingly, the company's ability to scale up its

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications



manufacturing operations and improve its profit margins, while effectively managing its working capital requirements, will remain critical.

Company profile

Incorporated in 2006, NMK Textiles (India) Private Limited (NMK) is engaged in the business of manufacturing and trading of bed linen. The directors of the company, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra, have about nine years of experience in this sector and collectively manage the operations of the company. NMK has been awarded the Gold Plaque by The Cotton Textiles Export Promotion Council of India (TEXPROCIL) for being the highest exporter of cotton made-ups in the year 2012-13. NMK's 20,000 sq. ft. manufacturing facility at Bhiwandi, Maharashtra, has a production capacity of 78,000 sheets per month.

Recent Results

NMK has reported a net profit after tax and depreciation of Rs. 2.37 crore on an operating income of Rs. 122.31 crore for the year-ending March 31, 2016 (provisional).

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