

July 11, 2017

Nikhil Adhesives Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-Based Limits	20.00	[ICRA]BB+(Stable); reaffirmed
Non-Fund Based Limits	70.00 [#]	[ICRA]A4+; reaffirmed
Fixed Deposit Programme	3.50	MB+(Stable); reaffirmed
Total	93.50	

[#]Includes fund based overdraft sub-limit of Rs. 3.00 crore and cash credit sub-limit of Rs. 2.00 crore rated [ICRA]BB+(Stable) and [ICRA]A4+

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus)¹ to the Rs. 20.00 crore² fund-based facilities and the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 70.00 crore non-fund based facilities of Nikhil Adhesives Limited (NAL or 'the company'). The outlook on the long-term rating is Stable.

ICRA has also reaffirmed the medium-term rating of MB+ (pronounced M B plus) with a stable outlook to the Rs. 3.50-crore fixed deposit programme of NAL.

Rationale

The ratings reaffirmation of NAL continues to take into account the extensive experience of the promoters in the emulsion/adhesive industry, its reputed customer profile and the moderately diversified product portfolio with presence in industrial as well as consumer segments.

The ratings, however, continue to take into account the muted profitability levels because of sub-optimal utilisation of the Dahej plant and overheads not being adequately absorbed by sales realisations, which have remained subdued as the trail effect of softened crude oil prices. Furthermore, being a net importer, the company's profitability is also vulnerable to forex fluctuations and competition from organised as well as the unorganised players in the industry. The financial profile is characterised by high reliance on external borrowings as well as creditor's funding, as reflected by the total outside liabilities (TOL) to tangible net-worth (TNW) at 6.0x as of March 2017, a leveraged capital structure and moderate debt coverage indicators.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- About three decades of experience of promoters in the emulsions and adhesives businesses
- Established relationship with customers, reputed international suppliers and distributors
- Diversified product portfolio along with presence in industrial as well as consumer segments
- New contracts from multi-national firms regarding assured off-take from its Dahej facility provides comfort from capacity utilisation as well as from revenue perspective

Credit weaknesses

- High total outside liabilities to tangible net-worth because of high borrowing levels and low net-worth base; presence of interest free unsecured loans provides comfort to an extent
- Modest profitability levels leading to moderate debt protection and interest coverage indicators
- Susceptible to volatility in the cost of basic raw material price, which is a derivative of crude oil prices, formula-based pricing structure with institutional clients mitigates this risk to an extent
- Highly competitive business environment, given the fragmented industry structure; stiff competition faced from established players in the adhesive and emulsions segments
- Import driven procurement leading to vulnerability to foreign exchange fluctuations; hedging using forwards provides comfort

Description of key rating drivers

The company has a diversified product profile of paint emulsions, textile emulsions, construction chemicals, industrial and consumer adhesives. It is also engaged in trading its procured raw materials. While manufacturing is the key revenue driver (~72% of sales in FY2017), paint emulsions dominate the product portfolio of NAL, accounting for ~33% of total sales, followed by industrial adhesives (~30%), whose share has increased steadily from FY2013. With a moderately diversified product profile, catering to paint, textiles, construction and adhesives industries, NAL is partly insulated from the downturns in any particular industry.

NAL has benefitted from the established brands, distribution network as well the advanced technology it absorbed when it acquired the synthetic resin dispersion emulsion business from Mafatlal Dyes & Chemicals in 2003. Presently, NAL caters to customers across India, with most of its customers concentrated in Maharashtra and Gujarat. It has negligible presence in the international market. NAL markets its products under the brands—Mahacol, Formisol, Formi-Stik, Emdilith, Rhino, Mahaseal, Mahatight, Mahabond and MAF bond.

NAL operates three manufacturing facilities—one each at Dahanu (near Mumbai), Silvassa (near Mumbai) and Dahej (Gujarat). Currently, the consolidated capacity of the three units is 49,500 MTPA. While the Dahanu and Silvassa units operate at fairly high capacity utilisation levels, the capacity utilisation level in the Dahej unit has not been at anticipated levels due to the delay in materialisation and off-take of orders from a prospective customer. With revival of business in the emulsions, retail adhesive and solvent-based adhesives emulsions business, improvement in capacity utilisation levels at the Dahej facility is anticipated.

The prices of key raw materials—such as vinyl acetate monomer (VAM) and butyl acetate monomer (BAM)—follow international crude oil prices, albeit with a lag. Moreover, as prices are import parity based, the fluctuations in forex rates impact domestic prices.

The top line of NAL grew at a CAGR of ~14% during the FY2013 to FY2016 period. Revenues from trading activities, however, slowed down on the back of 15% de-growth in volumes leading to marginal de-growth in top line in FY2017. The company's working capital profile remains moderate, supported by letter of credit (terms up to 90 days) backed purchases.

Going forward, scale up in operations by utilising the idle capacity at the Dahej facility to service the increased sales off-take from new customers will be a key monitorable. The company's ability to improve its capital structure, through better cash accruals and efficient working capital management, so as to improve the financial flexibility remains critical from the credit perspective.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Rating – A Note on Methodology
Rating Methodology for Chemical Industry

About the company

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

Table 1: Key financial Indicators

	FY2016	FY2017
Operating income (Rs. crore)	270.32	264.35
PAT (Rs. crore)	1.59	2.04
OPBDIT/ OI (%)	4.81%	3.98%
RoCE (%)	19.23%	17.24%
Total Debt/ TNW (times)	2.19	2.55
Total Debt/ OPBDIT (times)	2.68	4.35
Interest coverage (times)	1.59	1.48
NWC/ OI (%)	8%	14%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net-Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years

Table 2

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past three years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	April 2016	January 2015	February 2014
1	Fund-based Limits	Long Term	20.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)
2	Non-fund Based Limit	Short Term	70.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3
3	Fund Based Sub-Limit	Long and Short Term	(5.00)	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB- (Negative)/ [ICRA]A3
4	Fixed Deposit	Medium Term	3.50	MB+ (Stable)	MB+	MA-	-

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

Annexure-1
Instrument Details

Name of the instrument	Date of issuance/ sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating
Cash credit	-	-	-	20.00	[ICRA]BB+ (Stable)
Bank Guarantee	-	-	-	2.00	[ICRA]A4+
Letter of Credit	-	-	-	68.00	[ICRA]A4+
Overdraft/Cash Credit	-	-	-	(5.00) *	[ICRA]BB+(Stable)/ [ICRA]A4+
Fixed Deposit	FY2016	11-12%	FY2019	3.50	MB+(Stable)

*sub-limits

Source: NAL

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