

Needle Industries (India) Private Limited

March 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund based – Cash credit	24.00	25.50	[ICRA]BB+(Negative); downgraded from [ICRA]BBB- (Negative)
Short term: Fund based – Interchangeable	24.00 [^]	25.50 [^]	[ICRA]A4+; downgraded from [ICRA]A3
Short term: Non fund based	4.75	3.75	[ICRA]A4+; downgraded from [ICRA]A3
Short term: Fund based	0.50	-	-
Total	29.25	29.25	

[^]Fully interchangeable with long-term fund-based limits

Rating action

ICRA has downgraded the long-term rating from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 25.50-crore (revised from Rs 24.00-crore) fund-based facilities of Needle Industries (India) Private Limited (NIPL). The outlook on the long-term rating is Negative. ICRA has also downgraded the short-term rating from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 25.50-crore (revised from Rs. 24.00-crore) fund-based interchangeable facilities and to the Rs. 3.75-crore (revised from Rs. 4.75-crore) non-fund based facilities of NIPL.

Rationale

The ratings downgrade reflects the continuous revenue de-growth in the haberdashery product segment since FY2015 on account of weak global demand. As a major portion of the company's operating costs are fixed in nature, the profitability is highly sensitive to changes in turnover. As a result, decline in revenues led to net loss in FY2016 and FY2017. While the financial performance had improved to an extent in H2 FY2017, the company is expected to report cash loss in FY2018, leading to weaker debt-coverage metrics. The ratings also continue to consider the stiff competition from China in the global market, which restricts the pricing flexibility and margins to an extent.

However, the ratings continue to take into account the established position of the company in the organised haberdashery market where the company 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, the established presence of their brand 'Pony Needles' and the low customer and geographic concentration risks as the company's customer base is spread over 150 countries. The rating also draws comfort from the healthy capital structure of the company with a stable gearing of 0.5 times as on March 31, 2017.

Outlook: Negative

The 'Negative' outlook reflects ICRA's expectation that the company's financial profile would continue to be stressed by weak global demand for the hand segment of haberdashery products. The ratings may be downgraded if revenues continue to decline coupled with deterioration in margins and weakening of coverage indicators. The outlook may be revised to 'Stable' if there is demand pick-up in global markets, leading to healthy revenue growth and improvement in profitability.

Key rating drivers

Credit strengths

One of the largest manufacturers of haberdashery products in India with an established brand 'Pony Needles' - The company is one of the largest manufacturers of haberdashery products in India with a capacity to manufacture 200,000 gross i.e., 2.88 crore (1 gross = 144) knitting pins and 175 crore hand-sewing needles. NIPL has its manufacturing facilities in Ooty, Tamil Nadu, and employs ~800 employees. The company markets its products under its own brand, Pony Needles, which is a registered brand across 150 countries.

Extensive experience of the promoters and experienced management - The company was incorporated in 1949 and was a subsidiary of a large British manufacturer, Needle Industries Limited, Redditch, England. In 1979, the complete control of the company was transferred to Mr. Devagnanam Senior, an Indian. In 1989, his son Mr. T. A. Devagnanam, the current Managing Director, took over the operations of the company. The management has significant experience in the needle-manufacturing business spanning more than seven decades.

Low customer-concentration and geographic-concentration risks with customer base spread over 150 countries - The company secures orders from customers across 200 countries with primary destinations being European and American countries. The export sales constitute nearly half of the company's revenues. The geographic concentration is low with top-10 countries accounting for less than 10% of the revenues in the past two fiscals. In terms of customers, the company has around 300 customers in its portfolio, with around 30% of revenues coming from the top-10 customers in both FY2015 and FY2016, which reduced to ~25% in FY2017.

Healthy capital structure – The company's capital structure remained healthy, supported by a net worth of Rs. 46.26 crore as of March 31, 2017. The debt is mainly working-capital borrowings. The gearing ratio remained comfortable at 0.50 times as of March 31, 2017.

Credit challenges

Continuous decline in revenues from haberdashery products since FY2015 owing to weak global demand for haberdashery products – The revenues of the company from the haberdashery product segment - mainly hand-sewing needles and knitting pins, saw continuous de-growth in revenues since FY2016 owing to subdued export demand which constitutes 50% of revenue. Weak global demand can be attributed to the cyclical downturn witnessed industry-wide once in every five to six years. Demand from domestic markets was also affected by demonetisation as sales to domestic dealers were on cash-and-carry basis.

Continuous net loss since FY2016 and estimated cash loss in FY2018 leading to weak coverage indicators - Decline in production levels led to under-absorption of fixed overheads, resulting in operating losses in FY2016. Albeit witnessing improvement in operating profitability in FY2017, the company reported net loss in FY2017. The company is expected to witness cash loss in FY2018 on account of weak order book in H2 FY2018.

Stiff competition from China in both global and domestic markets - Though the company's products reach is almost worldwide, it faces stiff competition from Chinese products in both domestic and export markets which limits the company's market position. Also, intense competition restricts NIPL's pricing flexibility.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1949, Needle Industries India Private Limited (NIPL) manufactures hand-sewing needles, knitting pins and other haberdashery products catering to the hand segment of the sewing needle industry. Apart from these products, the company also manufactures an extensive range of surgical suture needles catering to the medical sector. The company sells its products under the brand Pony Needles both in domestic and international markets, with around 50% of the revenues derived from the international markets. NIPL also runs a fuel station and derived ~20% revenues from this business during FY2017.

The company reported a net loss of Rs. 1.37 crore on an operating income of Rs. 109.74 crore in FY2017 compared to a net loss of Rs. 2.84 crore on an operating income of Rs. 108.06 crore in FY2016.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	108.06	109.74
PAT (Rs. crore)	-2.84	-1.37
OPBDIT/ OI (%)	-2.36%	2.61%
RoCE (%)	-7.25%	0.60%
Total Debt/ TNW (times)	0.47	0.49
Total Debt/ OPBDIT (times)	-8.86	7.87
Interest coverage (times)	-1.02	1.09
NWC/ OI (%)	22.61%	22.97%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on date (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015 April 2015
1 Cash credit	LT	25.50	-	[ICRA]BB+ (Negative) Mar 2018	[ICRA]BBB- (Negative) May 2017	[ICRA]BBB- (Stable) April 2016	[ICRA]BB B- (Stable) April 2015
2 Packing credit	ST	(25.50)*	-	[ICRA]A4+ Mar 2018	[ICRA]A3 May 2017	[ICRA]A3+ April 2016	[ICRA]A3+ April 2015
3 Letter of credit and Bank guarantee	ST	3.75	-	[ICRA]A4+ Mar 2018	[ICRA]A3 May 2017	[ICRA]A3+ April 2016	[ICRA]A3+ April 2015

*Interchangeable with long term Cash credit

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

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+ (Negative)
NA	Packing credit	-	-	-	(25.50)*	[ICRA]A4+
NA	Letter of credit and Bank guarantee	-	-	-	3.75	[ICRA]A4+

Source: NIPL

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