

Nandi Irrigation Systems Limited

March 26, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	6.00	6.00	[ICRA]B (Stable); upgraded from [ICRA]B- (Stable)
Short Term - Non Fund Based Limits	3.00	3.00	[ICRA]A4; reaffirmed
Long Term/Short Term-Unallocated	3.00	3.00	[ICRA]B (Stable)/[ICRA]A4; upgraded from [ICRA]B- (Stable)/[ICRA]A4
Total	12.00	12.00	

*Instrument details are provided in Annexure

Rationale

The rating upgrade factors in the expected increase in Nandi Irrigation Systems Limited's (NISL) operating income in FY2019 with empanelment under Telangana State Micro Irrigation Project (TSMIP) scheme for supplying drip irrigation systems; and favourable growth prospects driven by demand in drip irrigation and government's focus on micro irrigation schemes. However, the rating is constrained by the company's small scale of operation in the PVC pipes manufacturing industry; weak financial risk profile as characterised by thin margins of 2.87% in 9MFY2019, interest coverage ratio of 1.20 times and 1.23 times in FY2018 and 9MFY2019 respectively, NCA/Total debt of 3% and 2% in FY2018 and 9MFY2019 respectively and high gearing at 2.00 times as on March 31, 2018 and 1.97 times as on December 31, 2018. The ratings are further constrained by exposure of the company's profitability to fluctuations in key raw material prices which constitutes around 95% of cost of production; significant delays in receivables from the government exerting pressure on the liquidity of the company; and high geographical concentration risk with the company's presence limited to Telangana and Andhra Pradesh.

Outlook: Stable

The stable outlook reflects ICRA belief that NISL will continue to benefit from the extensive experience of its promoters in the PVC pipes manufacturing industry. The outlook may be revised to 'Positive' if the revenue and profits improve along with improvement in liquidity profile of the company. The outlook may be revised to 'Negative' if financial position of the company weakens with decline in profitability and weakening of its liquidity position.

Key rating drivers

Credit strengths

Expensive experience of the promoters in the pipe manufacturing business: NISL is part of the Nandi Group which is founded by Mr. S.P.Y.Reddy. The Nandi group has businesses interests in diversified fields like PVC pipes & fittings, cement, ethanol and infrastructure sectors. Further, the promoters have around ten years of experience in micro irrigation business.

Improved revenues in FY2019: The operating income increased from Rs. 35.89 crore in FY2017 to Rs. 40.42 crore and Rs. 29.06 crore in FY2018 and 9MFY2019 respectively with increase in government orders for drip irrigation. However, the scale of operation continues to remain small. The company is empaneled under TSMIP scheme for supplying drip irrigation systems. This provides revenue visibility going forward.

Favorable demand prospects for drip and sprinklers: The company manufactures PVC pipes which are used by farmers in installing micro irrigation systems on farmlands. The demand outlook for the PVC pipes is expected to be favourable due to gaining popularity of sprinkler and drip irrigation system within the farming community which is further supported by the subsidy provided by the government.

Credit challenges

Weak financial profile: The financial risk profile is weak as characterised by thin margins of 2.87% in 9MFY2019, interest coverage ratio of 1.20 times and 1.23 times in FY2018 and 9MFY2019 respectively, NCA/Total debt of 3% and 2% in FY2018 and 9MFY2019 respectively and high gearing at 2.00 times as on March 31, 2018 and 1.97 times as on December 31, 2018.; however, the company's debt is limited to interest free unsecured loans and working capital borrowing.

Vulnerability of profitability to the fluctuations in key raw material prices: The profitability of the company is exposed to fluctuation in prices of key raw materials, PVC granules, which accounts for 95% of total cost. The prices of PVC are linked to crude oil prices, and therefore, the company remains vulnerable to fluctuations in their prices, as it is not able to completely pass on to any price hike to its customers.

Stretched liquidity position: The liquidity position is weak with full utilisation of working capital limits in the past 12 months ending February 2019 owing to significant delays in receivables from the government.

High geographical concentration risk: The company's operations are limited to Telangana and Andhra Pradesh. Thus, NISL is exposed to high geographical concentration risk.

Liquidity Position:

The liquidity position of the firm is tight owing to full utilisation of working capital limits in the past one year ending February 2019. Liquid cash remains low at Rs. 0.27 crore as on December 31, 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the firm:

Nandi Irrigation Systems Limited (NISL) was incorporated in 2007 and is promoted by Mr. Sajjala Sreedhar Reddy. The company is engaged in the manufacturing of Polyvinyl-Chloride (PVC) pipes, lateral pipes and sprinklers used in irrigation. NISL has its plant located in Nandyal, Kurnool district of Andhra Pradesh and is a part of the Nandi group of Industries based out of Andhra Pradesh. The group is having diversified business interest such as cement, dairy, PVC pipes, construction etc.

Key financial indicators

	FY2017	FY2018	9MFY2019*
Operating Income (Rs. crore)	35.89	40.42	29.06
PAT (Rs. crore)	0.13	0.14	0.07
OPBDIT/OI (%)	3.18%	2.92%	2.87%
RoCE (%)	9.13%	9.24%	8.69%
Total Debt/TNW (times)	2.37	2.00	1.97
Total Debt/OPBDIT (times)	8.10	6.81	7.25
Interest coverage (times)	1.12	1.20	1.23

*provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2019)	Chronology of Rating History for the past 3 years				
				Amount Outstanding (Rs. Crore)	Date & Rating Mar 2019	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 February 2015
1	Cash Credit	Long Term	6.00	-	[ICRA]B (Stable)	[ICRA]B- (Stable)	[ICRA]B-	[ICRA]B-
2	Non Fund Based	Short Term	3.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Unallocated	Long Term/ Short Term	3.00	-	[ICRA]B (Stable)/ [ICRA]A4	[ICRA]B- (Stable)/ [ICRA]A4	[ICRA]B-/ [ICRA]A4	[ICRA]B-/ [ICRA]A4

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	-	11.20%	-	6.00	[ICRA]B (Stable)
NA	Letter of Credit	-	-	-	2.00	[ICRA]A4
NA	Bank Guarantee	-	-	-	1.00	[ICRA]A4
NA	Unallocated	-	-	-	3.00	[ICRA]B (Stable)/[ICRA]A4

Source: Nandi Irrigation Systems Limited

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