January 17, 2020

Needle Industries (India) Private Limited: Ratings downgraded to [ICRA]BB- (Stable)/ [ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund based – Cash credit	25.50	26.30	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)
Short term: Fund based – Interchangeable with Cash Credit	25.50^	26.30^	[ICRA]A4; downgraded from [ICRA]A4+
Short term: Non-fund based	3.75	2.95	[ICRA]A4; downgraded from [ICRA]A4+
Total	**29.25**	**29.25**	

**Instrument details are provided in Annexure-1; ^interchangeable with cash credit facilities*

Rationale

The ratings downgrade factors in Needle Industries (India) Private Limited's (NIIPL) stagnant revenue growth in FY2019 and decline in revenues in H1 FY2020 owing to weak global and domestic demand for needles. It also factors in the loss incurred by the company in H1 FY2020 because of under absorption of fixed overheads. Also, NIIPL's margins are susceptible to foreign exchange rate volatility as around 50% of its revenues is derived from export sales. The ratings are also constrained by weak debt coverage metrics with the interest coverage ratio at 1.2 times and total debt/OPBITDA at 7.4 times in FY2019 owing to lower OPBITDA. The ratings also continue to consider stiff competition from China in both the global and domestic markets, which restricts the company's revenue growth, pricing flexibility and profit margins.

The ratings, however, continue to draw comfort from its established position in the organised haberdashery market, where it 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 and the established presence of their brand, Pony Needles, across the globe. It enjoys low customer and geographical concentration risks as its customer base is spread over 150 countries.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that NIIPL will continue to benefit from the reputation of its Pony brand in both global and domestic markets.

Key rating drivers and their description

Credit strengths

One of the largest manufacturers of haberdashery products in India with an established brand - The company has one of the largest manufacturing facilities for needles in India with a capacity to manufacture 2.88 crore knitting pins and 175 crore hand-sewing needles. It markets its products under its own brand, Pony Needles, which is a registered brand across

150 countries. Its manufacturing facilities are located in Ooty, Tamil Nadu, and employs ~800 employees. The management has significant experience in the needle manufacturing business spanning more than seven decades.

Low customer and geographical concentration risks with customer base spread over 150 countries - The company caters to customers across 150 countries with primary destinations being Europe and America. The export sales constitute nearly half of the revenues of the company. The company has over 300 customers spread across the world with the top-10 customers constituting around 33% of the total revenue in 7M FY2020 and the top-10 countries accounting for less than 10% of the revenues in the past two fiscals.

Credit challenges

Declining scale with weak demand prospects – NIIPL's revenue remained flat in FY2019 and declined in H1 FY2020 owing to weak demand from global market as export sales constituted ~50% of its revenues. The scale of operation remained relatively moderate, limiting its operational and financial flexibility.

Net losses leading to deterioration in debt coverage metrics – The decline in production levels following weak order flow led to under-absorption of fixed overheads over the last four fiscals, where the company reported net losses during FY2016-FY2018. In FY2019, the company turned profitable on the back of capital gain from the sale of asset. NIIPL's debt coverage metrics remained weak with the interest coverage ratio at 1.2 times and total debt/OPBITDA at 7.4 times in FY2019 owing to lower OPBIDTA.

Susceptibility of margins to foreign exchange volatility – NIIPL's earnings in foreign exchange (exports) constituted 53% of total revenues in FY2019. Hence, profitability remains susceptible to fluctuation in the rate of conversion of foreign exchange.

Stiff competition from Chinese products in both global and domestic markets – Though the company's product reach is almost around the globe, it faces stiff competition from Chinese products in both domestic and export markets. Intense competition not only restricts its revenue growth but also affects its pricing flexibility and profit margins to an extent.

Liquidity position: Stretched

Though the company has a free cash balance of Rs. 4.3 crore as on March 31, 2019, the liquidity position is **stretched** owing to negative fund flow from operations in FY2019 because of an increase in working capital intensity. It has a term loan repayment obligation of Rs. 0.66 crore in FY2020 and Rs. 0.12 crore in FY2021. The company has also availed Rs. 26.3-crore cash credit limit from SBI, IDBI Bank and IndusInd Bank and the company has a high average utilisation of 79% during the period November 2018 to October 2019.

Rating sensitivities

Positive triggers – ICRA may upgrade NIIPL's ratings if there is an improvement in the scale of operations and profitability. Specific credit metrics that may lead to an upgrade of NIIPL's rating include (1) Total Debt/ OPBITDA below 4.5 times on a sustained basis and (2) Interest coverage of above 2.3 times on a sustained basis.

Negative triggers –Pressure on NIIPL's ratings may arise if there is a decline in revenues and profitability or a deterioration in liquidity position. A decrease in interest coverage to below 1.2 times could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Based on standalone financials statements

About the company

Incorporated in 1949, Needle Industries manufactures hand-sewing needles, knitting pins and other haberdashery products catering to the hand segment of the sewing-needle industry. These apart, the company manufactures an extensive range of surgical suture needles, catering to the medical sector. The company sells its haberdashery products under the brand, Pony Needles, both in domestic and international markets, with around 50% of the revenues derived from the international markets. It also runs a fuel station from which it derived ~20% of its total revenues in FY2018.

The company was a subsidiary of a large British manufacturer, Needle Industries Limited, Redditch, England. In 1979, the complete control of the company was transferred to the hands of an Indian management. In 1989, the promoter's son, Mr. T. A. Devagnanam, the current Managing Director, took over the operations of the company.
In FY2019, the company reported a net profit of Rs. 0.9 crore on an operating income of Rs. 115.6 crore compared to a net loss of Rs. 4.3 crore on an operating income of Rs. 109.8 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	109.8	115.6
PAT (Rs. crore)	-4.3	0.9
OPBDIT/OI (%)	0.5	2.9
RoCE (%)	-1.2	4.1
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.1
Total Debt/OPBDIT (times)	39.8	7.4
Interest Coverage (times)	0.2	1.2
DSCR	0.6	1.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017
					17-Jan-2020	14-Mar-2019	20-Mar-2018	02-May-2017	13-Apr-2016
1	Cash Credit	Long Term	26.30	-	[ICRA]BB-(Stable)	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)
2	Packing Credit	Short Term	(26.30)*	-	[ICRA]A4	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+
3	Letter of Credit and Bank Guarantee	Short Term	2.95	-	[ICRA]A4	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+

**interchangeable with cash credit facilities*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	26.30	[ICRA]BB-(Stable)
NA	Packing credit	-	-	-	(26.30)	[ICRA]A4
NA	Letter of credit and bank guarantee	-	-	-	2.95	[ICRA]A4

Source: NIIPL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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