

February 11, 2020

Nisiki Technologies Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amounts (Rs. Crore)	Current Rated Amounts (Rs. crore)	Rating Action
Long term– Fund based - Term Loan	8.53	9.72	[ICRA]BB-(Stable); reaffirmed
Long term – Fund based – Cash Credit	9.00	9.00	[ICRA]BB-(Stable); reaffirmed
Long term – Unallocated	2.47	0.00	-
Short term – Fund based – Buyer’s credit fully interchangeable with Cash Credit	(9.00)	(9.00)	[ICRA]A4; reaffirmed
Short term – Non-fund-based – Bank Guarantee/ Letter of Credit fully interchangeable with Cash Credit	(9.00)	(9.00)	[ICRA]A4; reaffirmed
Total	20.00	18.72	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to factor in the extensive track record of the promoter of Nisiki Technologies Pvt Ltd (NTPL) in the auto-ancillary sector with significant experience in the manufacturing of commutators and bearings, and the favourable demand prospects in the domestic home-appliance segment. The ratings also favourably factors in the diversification of the company’s revenues across two-wheeler (2W), three-wheeler (3W) and four-wheeler (4W) segments in the automobile sector, and domestic home appliances sector. Moreover, the ratings continue to consider NTPL’s established relationship with large and reputed auto and domestic home appliances customers for more than a decade.

The ratings, however, remain constrained by NTPL’s modest scale of operations limiting its economies of scale, coupled with likely weakening in its debt-service coverage ratio in FY2020 due to high term loan repayment obligation in FY2020. The ratings also remain constrained by the exposure of the company’s margins to fluctuations in raw material prices and foreign exchange rates, and its limited pricing flexibility with its customers due to intense competition in India for commutators and bearings. Nevertheless, NTPL has the ability to pass on for any steep rise in raw material price and foreign exchange to its customers owing to its long-established relationship with them. The ratings are also tempered by high customer concentration risk with the top five customers constituting ~60% of its revenues in FY2019. Besides, ICRA takes note of the company’s electric-2w project, towards which it continues to await approval from the Automotive Research Association of India (ARAI) for commencement of electric-2W manufacturing. Its ability to commence manufacturing of electric-2W in a timely manner and ramp up of sales in the near-term remains a rating monitorable.

Key rating drivers

Credit strengths

Extensive track record of the promoter in the auto-ancillary sector - The company’s promoter, Mr Vittal Belandor is a mechanical engineer, who graduated from National Institute of Technology, Karnataka. He gained an experience of more than two decades in the manufacturing and trading of commutators and bearings in the auto-ancillary sector. Before

incorporation of the company in 1997, he had worked with SKF Bearings Limited, a global bearings manufacturing company, for about eight years.

Diversified revenues across auto-ancillary and domestic home appliances sector - The company's revenues are well-diversified across various segments in the automobile sector namely 2W, 3W and 4W and in the domestic home appliances sector. It derives around 48% of its revenues from 2W and 3W segment, ~12% from 4W segment and ~37% from the domestic home appliances sector.

Large and reputed clientele and established relationship with them - The company's top clientele include large and reputed players namely Mitsuba Sical India Limited, Preethi Kitchen Appliances Private Limited, Lucas TVS Limited, Flash Electronics Private Limited, Butterfly Gandhimathi Appliances Limited and Kinetic Taigene Electrical Private Limited. It has been supplying commutators and bearings to many of these customers for more than ten years and has an established relationship with them as reflected in the repeat orders from them.

Credit challenges

Modest scale of operations - The scale of operations remains modest with revenues of Rs 70.2 crore despite healthy growth of 19% in FY2019 and net worth of Rs 15.5 crore as on March 31, 2019 resulting in limited operational and financial flexibility. Being a tier-1/tier-2 supplier in the commutator and bearings market, the scale is comparable to that of an average-sized player in the market.

Weak debt-service coverage ratio - The company's interest coverage ratio improved to 3.0 times in FY2019 from 2.1 times in FY2018 respectively on account of improved operating profits. Moreover, NTPL's DSCR also improved to 1.2 times in FY2019 from 0.8 times in FY2018 due to improved profits and reduction in interest expenses. However, the DSCR is expected to weaken in FY2020 due to high term loan repayments on account of fresh term loan availed.

Margins susceptible to raw material and foreign exchange fluctuation - The company's margins are susceptible to fluctuation in foreign exchange currency as imports constitute around ~85% of its total purchases and it does not have any hedging mechanism in place. The margins are also susceptible to raw material prices, mainly that of copper, which is imported. Nonetheless, NTPL has the ability to pass on any steep rise in the prices or currency to its customers to some extent.

Intense competition in the commutators and bearings domestic market - The commutators and bearings market are composed of numerous small and medium-sized players under tier-1 and tier-2 categories giving rise to intense competition. Further, the company also faces stiff competition from imports mainly from China. NTPL is a tier1/ tier-2 supplier and faces stiff competition from other reputed brands for commutators and bearings despite selling under its own brands NT and TRIX. The intense competition restricts its pricing flexibility.

High customer concentration risk - Though the company's top five customers constituted around 62% of the total revenues in FY2019 as compared to 71% in FY2018, the customer concentration risk remains high. However, its established relationship with large reputed clientele mitigates this risk to an extent.

Liquidity: Stretched

NTPL's cash flows from operations declined in FY2019 due to increased working capital requirements. Consequently, the free cash flows turned negative after capital expenditure and term loan repayments of Rs 2.35 crore. Going forward, the company has sizeable term loan repayment obligations of Rs 3.84 crore in FY2020, Rs 3.30 crore in FY2021 and Rs 1.43

crore in FY2022. The liquidity of the company is stretched with unencumbered cash balance of Rs 0.34 crore as on March 31, 2019 and with high utilisation of working capital borrowings with an average utilisation of 88% for the period from November 2018 to October 2019.

Rating sensitivities

Positive Triggers - The ratings may be upgraded if the company is able to achieve healthy revenue growth on a sustained basis along with improved profitability and liquidity position. The rating may also be upgraded if the company is able to achieve DSCR of 1.2 times on a sustained basis.

Negative Triggers- Negative pressure on the ratings could arise if there is decline in revenues due to prolonged slowdown in the auto sector along with reduction in profitability. The ratings could also be downgraded if there is any increase in working capital intensity which further weakens the liquidity position. A weakening in interest coverage below 2.0 times will exert pressure on the ratings.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Auto Component Manufacturers
Parent/Group Support	-
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 1997, NTPL is involved in trading of commutators and bearings catering primarily to automotive and electrical home appliances sectors. It also manufactures commutators from its Bangalore facility and it has a capacity to manufacture 65 lakh units of commutators a year. However, the revenues from the manufacturing segment constituted only around 18% in FY2019 and a major portion of its revenues are derived from the trading segment. The company's registered office and manufacturing facility are in Bangalore, Karnataka, and it has sales branch offices in Bangalore, Pune, Delhi, Chennai and Pondicherry.

In FY2019, NTPL reported a net profit of Rs. 2.2 crore on an OI of Rs. 70.2 crore compared to a net profit of Rs. 1.4 crore on an OI of Rs. 59.0 crore in the previous year.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	59.0	70.2
PAT (Rs. crore)	1.4	2.2
OPBDIT/ OI (%)	7.3%	7.6%
RoCE (%)	12.7%	14.8%
Total Outside Liabilities/ Tangible Net Worth (times)	2.4	2.1
Total Debt/ OPBDIT (times)	4.0	3.1
Interest Coverage (times)	2.1	3.0
DSCR	0.8	1.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on November 30, 2019 (Rs.crore)	Date & Rating 11-Feb-2020	Date & Rating in FY2019 11-Dec-2018	Date & Rating in FY2018	Date & Rating in FY2017
1 Term Loan	Long Term	9.72	7.52	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
2 Cash Credit	Long term	9.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
3 Unallocated	Long term	0.00	-	-	[ICRA]BB-(Stable)	-	-
3 Buyer's Credit	Short term	(9.00)	-	[ICRA]A4	[ICRA]A4	-	-
4 Bank Guarantee/Letter of Credit	Short term	(9.00)	-	[ICRA]A4	[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	Term Loan 1	Jun-2018	-	May-2022	1.31	[ICRA]BB- (Stable)
	Term Loan 2	Jun-2018	-	Oct-2022	1.54	
	Term Loan 3	Jun-2018	-	Nov-2020	1.53	
	Term Loan 4	Jun-2018	-	Feb-2021	3.09	
	Term Loan 5	Jun-2019	-	Jun-2023	2.25	
					9.72	
NA	Cash Credit	-	-	-	9.00	[ICRA]BB-(Stable)
NA	Buyer's Credit	-	-	-	(9.00)	[ICRA]A4
NA	Letter of Credit	-	-	-	(9.00)	[ICRA]A4
NA	Bank Guarantee	-	-	-	(9.00)	[ICRA]A4

Source: NTPL

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