



Press Release

NRC Industries Limited

September 03, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Fund Based	28.00	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	Assigned
Short Term Bank Facilities – Non Fund Based	27.00	IVR A3 / Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)	Assigned
Total	55.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of NRC Industries Limited (NRC) takes into account its long track record of operations under an experienced management, state of the art manufacturing facilities with backward integration & reputed clientele albeit customer concentration. Further, the ratings also derive comfort from its healthy scale of operations with sustained growth in scale of operations, comfortable capital structure and improvement in its performance during FY20 (provisional). These rating strengths partially offset by moderation in operating and profit margins, raw material price fluctuation risk, exposure to foreign exchange fluctuation risk, presence in competitive and fragmented industry and moderate working capital intensive nature of operations marked by elongated receivable period. The rating remains under credit watch with developing implications due to uncertainty in the performance due to less operations in the state of Punjab amidst outbreak of COVID-19. Infomerics will continue to monitor the developments in this regard and will take a view on the rating once the exact implications of the above on the credit risk profile of the company are clear.



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Key Rating Sensitivities:

Upward Factors:

- Sharp increase in total income with significant improvement in profit margins and cash accruals on a sustained basis
- Improvement in capital structure , debt protection metrics and liquidity

Downward factors:

- Moderation in operating income or profitability and/or cash accrual, any further stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Withdrawal of subordinated unsecured loan amounting to Rs.1.37 crore (outstanding as on March 31,2020) and/or deterioration in overall gearing to over 1.50x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management with long track record of operations**

The affairs of the company are being mainly looked after by its directors, viz., Mr. Tarunjit Singh, Executive Director , Mr. Jasneet Singh, Executive Director, Mr. Tarunjit Singh, Executive Director, Mr. Arvinder Singh, CEO and Mr. Absar Ahmad Khan, Director (Marketing), who are having long experience in this line of activity. They are being assisted by a team of qualified and experienced staff who look after finance, production, and quality control, marketing and general administration.

- **Sustained growth in scale of operation**

Total operating income (TOI) of the company registered a CAGR of 18.23% in the past 3 years and indicated y-o-y growth of about ~29.71% in FY20 backed by introduction of a new product - steel cord belting, which is a higher value product and commands better margins as compared to textile based conveyor belting and also driven by increased orders received from new clients and repeated orders from existing clients.



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- **Comfortable capital structure**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing remained comfortable at 0.93x as on March 31, 2020 improved from 1.62x as on March 31, 2019 due to decrease in total debt in FY20 majorly less utilization of short term borrowings. The net worth stood healthy at of INR 28.10 crore as on March 31, 2020 as against INR 25.10 crore in the previous year. To arrive at the net worth, Infomerics has considered INR 1.37 crore of unsecured loans from related and non-related as quasi equity as the same is subordinated to the bank facilities. Further, total indebtedness of the company as reflected by TOL/ANW remained stable and comfortable at 1.77x as on March 31, 2020 (TOL/TNW at 2.70x in FY19). The debt protection metrics remained strong, with interest coverage ratio at 1.73x in FY20 increased from 1.66x in FY19. Improvement in ISCR in FY19 was mainly on account of less utilization of bank borrowings in FY20.

- **State of the art manufacturing facilities with backward integration**

The unit is a registered SSI unit and is engaged in the manufacturing of transmission belting, conveyor belts and industrial fabric. The manufacturing facility of the NRC is ISO 9001 certified. The company is only one of two manufacturers of conveyor belting in India, which has got the facility of twisting/doubling of nylon yarn, weaving and dipping of nylon fabric and thus backwardly integrated, to the extent possible Further, the facilities of the company are running with healthy capacity utilisation over the years.

- **Reputed clientele albeit customer concentration**

The company mainly caters to various PSU's such as Coal India, NTPC, SAIL, etc. in the various Govt. departments like Electricity Boards, Steel Plant, Cement Plants, Mines and dealers in private sector. However, top 10 customers cater to around ~67% of its total operating income in FY20, indicating a concentrated customer profile. Though customers being reputed government companies impart comfort with low counterparty risk.



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Key Rating Weaknesses

- **Raw material price risk and susceptibility to foreign exchange fluctuations**

Some of the key raw materials used in manufacturing of the company are derivatives of crude oil. Crude oil has exhibited considerable volatility in the past on account of various reasons. Any adverse fluctuation in crude oil prices going forward may impact the profitability of NRC. However, this risk is mitigated to a certain extent as the prices of purchases and sales are fixed in advance. Further, imports constitute ~33.52% of the company's raw material requirement in FY20, which exposes the company to foreign exchange fluctuation risk.

- **Moderation in operating and profitability margins**

The EBITDA margins has deteriorated from 7.57% in FY19 to 6.28% in FY20 as to enhance the sales and speed-up realizations of sales, the company had to incur more expenditure on liaison agents, sales related travelling and also employ more professionals, resulting in higher salaries and sales overheads. This resulted in slight lower EBITDA margins in FY20. PAT margins has also gone down and in line with operating margins from 3.10% in FY19 to 1.92% in FY20.

- **Competitive and fragmented nature of industry**

The textile conveyor belting industry in India is highly fragmented, as the company faces stiff competition from the reputed players in the industry especially subsidiaries of global majors like Michelin SA and Continental AG, as well as from several small and mid-sized unorganised players. Additionally, as the company caters 90% of its business to PSU's its pricing flexibility remains constrained.

- **Moderate Working capital intensive nature of operations marked by elongated receivable period**

The operations of the company are moderately working capital intensive as reflected by elongated working capital cycle of 82 days (though remained below 100 days in last 3 years), majorly due to stretched receivables (at 108 days in FY20 below from last year, at 135 days), As the major sales are to PSUs, viz. Coal India, NTPC, SAIL etc., the payment is usually delayed in this line of activity due to cumbersome paper work involved, but the payment is fully secured. To curtail and control debtors the company have increased strength of our sales team and liaison agents. Further, they have also started getting



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preference in payments due to GOI initiative for MSME units. NRC also made tie-ups with bills factoring platforms under GOI initiative of TReDS for MSMEs, which will further speed-up payment at lower cost. Besides, the company manages to avail credit from its suppliers based on its relationships (Stood at 58 days in FY20 down from 78 days in FY19), which kept its working capital cycle in the vicinity of last year's level though remained elongated in FY 20.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the company is has remained adequate marked by GCA of INR 3.05 Cr in FY20 against debt repayments of INR 1.84 Cr in FY20. The company has projected to generate steady cash accrual over the near medium term of INR 2.41 Cr – INR 4.24 Cr during FY21-FY23 as against near term debt repayment obligations of INR 0.69 Cr – INR 0.03 Cr. Moreover, the company has no debt avilment plan in the near term which imparts further comfort. Further, its bank limits remained fully utilized to the extent of ~97% during the past 12 months ended June 2020 indicating moderate liquidity buffer and unencumbered cash and bank balances stood at INR 0.66 Cr in FY20 indicating limited headroom for any capex. The current ratio stood at 1.51x in FY 20 and remained satisfactory.

About the Company

M/S. NRC Industries Limited was incorporated on 28.11.85 under the name of M/s. Eastern Rubbers Private Limited and on 10.07.92, its name was changed to its present one. The unit is a registered SSI unit and is engaged in the manufacturing of transmission belting, conveyor belts and industrial fabric. The affairs of the company are being mainly looked after by its directors, viz., Mr. Tarunjit Singh, Executive Director , Mr. Jasneet Singh, Executive Director, Mr. Tarunjit Singh, Executive Director, Mr. Arvinder Singh, CEO and Mr. Absar



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Ahmad Khan, Director (Marketing), who are having long experience in this line of activity. They are being assisted by a team of qualified and experienced staff who look after finance, production, and quality control, marketing and general administration.

The company is only one of two manufacturers of conveyor belting in India, which has got the facility of twisting/doubling of nylon yarn, weaving and dipping of nylon fabric and thus backwardly integrated, to the extent possible. The company has been regd. as MSME. The company has been accredited with ISO 9001 certification.

Financials: Standalone

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	106.00	137.50
EBITDA	8.03	8.63
PAT	3.34	2.65
Tangible Net worth	23.70	26.70
^Adjusted Net worth	25.10	28.10
EBITDA Margin (%)	7.57	6.28
PAT Margin (%)	3.10	1.92
Overall Gearing Ratio (x)	1.62	0.93

*As per Infomerics Standards

^INR 1.37 Cr of unsecured loans from promoters/related parties have been treated as quasi equity as the same is subordinated to bank loan facilities

Status of non-cooperation with previous CRA: The rating was migrated to Issuer non-cooperating category by Brickwork Ratings vide its press release dated May 05, 2020 due to lack of cooperation from the client.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	OCC	Long Term	28.00	IVR BBB- / Credit watch with			



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
				developing implications (IVR Triple B Minus under credit watch with developing implications)	-	-	-
2.	ILC/FLC/BG	Short-term	27.00	IVR A3 / Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – OCC	-	-	-	28.00	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)
Short Term Bank Facilities – ILC/FLC/B G	-	-	-	27.00	IVR A3 / Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)