



Press Release

Nagreeka Exports Ltd

November 03, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1.	Long Term Fund Based Facility – Term Loan	9.14	IVR BBB- / Negative Outlook (IVR Triple B Minus with Negative Outlook)
2.	Long Term Fund Based Facility – CECL	15.85	IVR BBB- / Negative Outlook (IVR Triple B Minus with Negative Outlook)
3.	Long Term Fund Based Facility – CC	52.00	IVR BBB- / Negative Outlook (IVR Triple B Minus with Negative Outlook)
4.	Short Term Fund Based Facility – FDB/FBE/BRD/FDBP/FUDBP	42.70	IVR A3 (IVR A Three)
5.	Short Term Fund Based Facility – PC/PCFC/FBP/FBN	85.55	IVR A3 (IVR A Three)
6.	Short Term Non Fund Based Facility – Letter of Credit	17.58	IVR A3 (IVR A Three)
7.	Short Term Non Fund Based Facility – Bank Guarantee	2.50	IVR A3 (IVR A Three)
	Total	225.32	

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of the entity derives comfort from their experienced promoters and established presence in the yarn export segment, quality products with reputed and diversified client base with a healthy order book and moderate capital structure and debt coverage indicators. However, raw material price risk, foreign exchange risk and country concentration risk are the rating constraints. The outlook has been assigned as negative because of subdued operating performance in FY20 and moderation in revenues in Q1FY21 following the adverse impact on demand conditions because of COVID-19 pandemic. Moreover, the Q2FY21 performance is expected to remain muted.



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Key Rating Sensitivities

Upward factors:

- Sustained improvement in profitability margins and debt coverage indicators

Downward factors:

- Decline in profitability leading to further weakness in liquidity or debt coverage indicators

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and established presence in the yarn export segment

Nagreeka Exports Ltd was promoted by late Mr Ishwarlal Patwari and now overseen by Mr. Sunil Patwari and Mr. Sushil Patwari play an active role in the operations of the company; they have over 4 decades of experience behind them in the business of import and export of cotton yarn and related products and knitted fabrics. The promoters frequently support the company by way of infusion of funds both in the form of preferential shares and unsecured loan. The company has an established track record of over 3 decades in the industry which has aided in the growth of the companies over the years.

Quality products with reputed and diversified client base with a healthy order book

A key factor distinguishing players in the commodity yarn market is their count range. A tilt towards finer counts partly shields them from cotton price fluctuations; this is because yarn realisations in the finer counts are generally less elastic than cotton prices, and are substantially higher than those in coarser counts. Further the commodity fabric segment, texture and colour ranges are additional specialisation. NEL offers a wide variety of products ranging from the Ne 21 to Ne 60, all of which are quality codes providing yarns of different colours and strengths – all the yarns produced are pure cotton and they do not make use of any blended yarns. The company also has well established relations with various reputed companies like Nike, Reebok, Tommy Hilfiger, Levi Strauss, Wal-Mart, H&M. They have their clients located in a variety of countries with the majority of the sales going into Bangladesh, Pakistan, Colombia and Turkey. Currently the company has an export order book or INR176.92 crore as on 30th September, 2020; the management expects more orders to come



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in as the lockdown restrictions have started to ease and there is a very high demand for cotton in the international market as the demand for face masks and surgical gown is on the rise (cotton is a primary raw material for these items) and an indigenous order book of approximately INR10.00 crore to INR15.00 crore involving scheduled monthly supplies to their indigenous clients.

Moderate capital structure and debt coverage indicators

Despite the subdued performance in FY20, the company has seen an improvement in the debt coverage indicators with their long term debt equity ratio declining from 0.16x in FY19 to 0.10x in FY20 due to repayment of long term loans, which have decreased from INR19.05 crore in FY19 to INR11.37 crore in FY20. The interest coverage ratio has also remained comfortable at 1.86x.

Key Rating Weaknesses

Raw material price risk

The price of raw cotton is based on the estimated sowing for the year and availability around harvest. The sowing and yields fluctuate on year on year basis which leads to volatility in the pricing. Besides the domestic prices are also impacted by international prices based on demand and supply. While the medium-term prospects are for sustained growth, there may be potential short-term uncertainties in the current outlook period which may result in short-term volatility in demand, supply and prices. A sudden slow-down in the global economy can lead to sharp drop in trade of global textiles and clothing, competitive prices and quality from synthetic fibres, and changes in government policies are important factors that can affect the cotton market. China's reduced cotton reserve policy has also impacted the overall exports of cotton. Although the world cotton price is continuously under pressure due to high stock levels and strong competition from synthetic fibres, cotton prices are expected to be relatively stable in near terms for the above forecasted period. The company generally passes on any increase in raw material prices onto their customers.

Foreign Exchange fluctuation risk

The company is exposed to currency fluctuation risk to the extent that there is a mismatch between the currencies in which Export sales, Import purchase, other expenses and



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borrowings in foreign currency are denominated and the functional currency of the company. The currencies in which these transactions are primarily denominated are Euro and USD. At any point in time, NEL generally hedges its estimated foreign currency exposure in respect of its forecast sales over the following 12 to 18 months. The company uses forward exchange contracts to hedge its currency risk. Such contracts are generally designated as cash flow hedges. NEL has zero unhedged position as on 31.03.20.

Country concentration risk

The primary country into which they export cotton yarn is Bangladesh, which accounts to over 56% of the total exports amounting to INR158.33 crore in FY2020. This exposes the firm to political risks, currency fluctuation risk and country risk.

Analytical Approach:

Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The liquidity of the company is stretched with a just above unity current ratio of 1.01x. Their gross cash accruals amount to INR7.84 crore with a cash and bank balance of INR3.40 crore, as against their short term obligations (including interest and CPLTD) amount to INR21.62 crore, along with high utilised bank limits with an average utilisation of 92.47%.

About the company

Nagreeka Exports Ltd. was incorporated with the Registrar of Companies, West Bengal on 6th March 1989. The company was promoted by late Mr. Ishwarlal Patwari and his family to undertake their family business of yarn trade. They pursued exporting of cotton yarn to mainly Bangladesh and other countries and decided to set up its own spinning mill in 1993 to overcome the yarn shortage and cater to its existing customer base. The Company's export oriented Cotton Spinning Unit with a capacity of 55440 spindles is located in Kolhapur,



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Maharashtra. The Company is producing about 7500 TPA of World Class normal and organic cotton yarn in the count range from English count (Ne) 20s to 61s with an average production count of Ne 39s-doublecombed and carded suitable for knitting and weaving sector for both export and domestic markets.

Financials (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2018	31-03-2019	31-03-20
	(Audited)	(Audited)	(Audited)
Total Operating Income	547.44	606.48	472.31
EBITDA	24.22	19.88	17.73
PAT	2.40	3.63	0.68
Total Debt	166.87	164.93	166.58
Tangible Net-worth	113.55	112.23	106.47
Ratios			
EBITDA Margin (%)	4.41	3.28	3.75
PAT Margin (%)	0.44	0.60	0.14
Overall Gearing Ratio (x)	1.39	1.38	1.43

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None



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Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR 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.	Long Term Fund Based Facility – Term Loan	Long Term	9.14	IVR BBB-/ Negative Outlook	--	--	--
2.	Long Term Fund Based Facility – CECL	Long Term	15.85	IVR BBB-/ Negative Outlook	--	--	--
3.	Long Term Fund Based Facility – CC	Long Term	52.00	IVR BBB-/ Negative Outlook	--	--	--
4.	Short Term Fund Based Facility – FDB/FBE/BRD/FDBP/FU DBP	Short Term	42.70	IVR A3	--	--	--
5.	Short Term Fund Based Facility – PC/PCFC/FBP/FBN	Short Term	85.55	IVR A3	--	--	--
6.	Short Term Non Fund Based Facility – Letter of Credit	Short Term	17.58	IVR A3	--	--	--
7.	Short Term Non Fund Based Facility – Bank Guarantee	Short Term	2.50	IVR A3	--	--	--

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. 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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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Term Loan	NA	NA	Up to Sept, 2021	9.14	IVR BBB-/ Negative Outlook
Long Term Fund Based Facility – CECL	NA	NA	Payable within 3 years	15.85	IVR BBB-/ Negative Outlook
Long Term Fund Based Facility – CC	NA	NA	Revolving	52.00	IVR BBB-/ Negative Outlook
Short Term Fund Based Facility – FDB/FBE/BRD/FDBP/FUDBP	NA	NA	Less than 1 year	42.70	IVR A3
Short Term Fund Based Facility – PC/PCFC/FBP/FBN	NA	NA	Less than 1 year	85.55	IVR A3
Short Term Non Fund Based Facility – Letter of Credit	NA	NA	Less than 1 year	17.58	IVR A3
Short Term Non Fund Based Facility – Bank Guarantee	NA	NA	Less than 1 year	2.50	IVR A3