

March 27, 2023

Needle Industries (India) Private Limited: Long term rating downgraded to [ICRA]B+ (Stable); short-term rating reaffirmed at [ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based - CC	26.30	24.00	[ICRA]B+ (Stable); downgraded from [ICRA]BB- (Stable)
Long term fund based – Standby line of Credit	0.00	1.30	[ICRA]B+ (Stable); downgraded from [ICRA]BB- (Stable)
Long term fund based facility	0.00	1.00	[ICRA]B+ (Stable); downgraded from [ICRA]BB- (Stable)
Short term fund based – Interchangeable facility	(26.30)	(28.00)	[ICRA]A4 reaffirmed
Short term non-fund based – LC/BG (Sublimit)	0.00	(1.00)	[ICRA]A4 reaffirmed
Short term non-fund based – Forward cover	0.00	0.50	[ICRA]A4 reaffirmed
Short term non-fund based facility	2.95	2.00	[ICRA]A4 reaffirmed
Long term/ Short term – Unallocated	0.00	0.45	[ICRA]B+ (Stable) /[ICRA]A4; Long term rating downgraded from [ICRA]BB- (Stable) and short-term rating reaffirmed
Total	29.25	29.25	

*Instrument details are provided in Annexure-I

Rationale

The revision in long-term rating for Needle Industries (India) Private Limited's ('NIPL'/the company') follows its weak performance in YTD FY2023 and expectation of a subdued performance in the near-to-medium term. The company reported a 9% annualised decline in revenues in H1 FY2023 over FY2022, impacted by the export slowdown and is expected to report a YoY decline in revenues for full year FY2023 as well. Further, ICRA expects NIPL's revenues to remain subdued for the next 6-9 months, considering the global macroeconomic gloom, despite likely uptick in domestic demand. The negative operating leverage and unfavourable product mix (with increase in proportion of domestic sales) have impacted the company's profit margins in YTD FY2023. NIPL is expected to report net losses for FY2023, and its margins are expected to remain weak till export demand picks up. The weak accruals consequently stretched the coverage metrics and liquidity position of the company.

The ratings remain supported by NIPL's established position in the organised haberdashery market, being one of the largest manufacturers in India, with more than seven decades of presence. Further, NIPL enjoys relatively low customer and geographical concentration risks as its clientele is spread over 50 countries. However, NIPL faces stiff competition from Chinese products and unorganised market players in both the 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 established presence in the haberdashery industry spanning more than seven decades. It has one of the largest manufacturing facilities for needles in Ooty, India with a capacity to manufacture 2.88 crore knitting pins and 175 crore hand-sewing needles, and ~800 employees. It markets its products under its own brand, Pony Needles, which is registered across 50 countries.

Low customer and geographical concentration risks reduces vulnerability of revenues to loss of clients and region-specific risks – The company secures orders from customers across 50 countries and the geographical concentration is relatively low with no single region contributing to more than 20% of revenues. The top two regions in terms of export revenue share are – UK/Europe with 18% contribution and USA/South America with 19% of the top line during H1 FY2023. Further, the company's customer profile is well diversified with around 300 clients in its portfolio. Accordingly, it has relatively low customer concentration with only 22% of revenues from top five customers during H1 FY2023. NIPL's healthy customer and geographical diversification helps mitigate the impact of loss of clients/region-specific risks on the company's revenues to an extent.

Credit challenges

Slowdown in exports has impacted revenues in YTD FY2023; company to report losses in FY2023 – The company reported a 9% annualised decline in revenues in H1 FY2023 over FY2022, impacted by the export slowdown and is expected to report a YoY decline in revenues for full year FY2023 as well. Further, ICRA expects NIPL's revenues to remain subdued for the next 6-9 months, considering the global macroeconomic gloom, despite likely uptick in domestic demand. The negative operating leverage and unfavourable product mix (with increase in proportion of domestic sales) have impacted the company's profit margins in YTD FY2023. NIPL is expected to report net losses for FY2023, and its margins are expected to remain weak till export demand picks up.

Stretched coverage metrics and liquidity position - The weak accruals in YTD FY2023 have cascaded into stretched coverage metrics and liquidity. ICRA expects the company's coverage metrics to remain weak for full year FY2023 and FY2024 as well. NIPL's liquidity position is stretched with negligible cash and bank balances and limited buffer of Rs. 3.2 crore in working capital limits against sanctioned limits as on December 31, 2022. Improvement in accruals and liquidity position is critical.

Revenues susceptible to competition from Chinese products and unorganised players - Though the company's product reach is almost around the globe, it faces stiff competition from the Chinese products and unorganised players in both domestic and export markets. Intense competition restricts its revenue growth and affects its pricing flexibility as well as profit margins to an extent. However, the established presence of NIPL's 'Pony' brand across countries in the haberdashery segment provides comfort to an extent.

Liquidity position: Stretched

The company's liquidity position is stretched, impacted by its weak operating performance. Its average working capital utilisation was relatively high, at 88% of the sanctioned limits for the period December 2021 to January 2023. The company had negligible cash and bank balances of Rs. 0.01 crore and limited buffer of Rs. 3.2 crore in working capital limits against sanctioned limits as on December 31, 2022. As against these sources of cash, the company has debt repayment obligations of 2.1 crore in FY2024 and 1.3 crore in FY2025 on its existing loans. The company has only maintenance capex during FY2023 – FY2025. Improvement in operating performance or timely and adequate fund infusion from the promoters is critical for timely servicing of debt obligations.

Rating sensitivities

Positive factors – Improvement in the company's scale of operations and profitability on a sustained basis could trigger an upward revision in ratings. Specific credit metrics include int cover above 2.0 times on sustained basis.

Negative factors – Pressure on the company's ratings could arise if there is a decline in revenues and profitability or deterioration in liquidity position. Specific metric for downgrade includes DSCR less than 1.0 time on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of Needle Industries (India) Private Limited

About the company

Incorporated in 1949, NIPL manufactures hand-sewing needles, knitting pins and other haberdashery products catering to the hand segment of the sewing-needle industry. These apart, it 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 44% of H1 FY2023 revenues derived from the international markets. It also runs a fuel station from which it derived ~27% of its total revenues in H1 FY2023.

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, Mr. T. A. Devagnanam, the current Managing Director, took over its operations.

Key financial indicators (audited)

NIPL Standalone	FY2021	FY2022
Operating income	106.8	143.6
PAT	1.3	1.6
OPBDIT/OI	4.6%	4.7%
PAT/OI	1.2%	1.1%
Total outside liabilities/Tangible net worth (times)	1.4	1.4
Total debt/OPBDIT (times)	6.1	4.2
Interest coverage (times)	1.4	1.8

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2020 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				March 27, 2023	December 23, 2021	January 04, 2021	January 17, 2020
1 Fund based - CC	Long term	24.00	-	[ICRA]B+ (Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)	[ICRA]BB-(Stable)
2 Fund based – Standby line of Credit	Long term	1.30	-	[ICRA]B+ (Stable)	-	-	-
3 Fund based – Others	Long term	1.00	-	[ICRA]B+ (Stable)	-	-	-
4 Fund based Interchangeable facility	Short Term	(28.00)	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
5 Non fund based - LC/BG (Sublimit)	Short Term	(1.00)	-	[ICRA]A4	-	-	-
6 Non fund based- Forward cover	Short Term	0.50	-	[ICRA]A4	-	-	-
7 Non fund based facility	Short Term	2.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
8 Unallocated	Long-term/ Short-term	0.45	-	[ICRA]B+ (Stable)/ [ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund based - CC	Simple
Long term Fund based – Standby line of Credit	Simple
Long term Fund based facility	Simple
Short term Fund based – Interchangeable facility	Simple
Short term Non fund-based – LC/BG (Sublimit)	Very Simple
Short term Non fund-based – Forward cover	Simple
Short term Non fund-based facility	Very Simple
Long term/ Short term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's

credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	24.00	[ICRA]B+ (Stable)
NA	Standby line of credit	NA	NA	NA	1.30	[ICRA]B+ (Stable)
NA	Dealer financing Scheme	NA	NA	NA	1.00	[ICRA]B+ (Stable)
NA	Fund based – Interchangeable facility (Sublimit)	NA	NA	NA	(28.00)	[ICRA]A4
NA	Non fund-based – LC/BG (Sublimit)	NA	NA	NA	(1.00)	[ICRA]A4
NA	Forward cover	NA	NA	NA	0.50	[ICRA]A4
NA	Non fund based facilities	NA	NA	NA	2.00	[ICRA]A4
NA	Unallocated	NA	NA	NA	0.45	[ICRA]B+ (Stable)/ [ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis – NA

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