

January 31, 2024

NIS Management Limited: Ratings reaffirmed and removed from Non Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based – Term Loan	13.80	10.30	[ICRA]BBB+ (Stable); reaffirmed and removed from ISSUER NOT COOPERATING category
Long term - Fund based – Cash Credit	56.00	56.00	[ICRA]BBB+ (Stable); reaffirmed and removed from ISSUER NOT COOPERATING category
Short term - Fund-based – Standby Line of Credit	-	3.50	[ICRA]A2; reaffirmed and removed from ISSUER NOT COOPERATING category
Short term - Non-fund based – Bank Guarantee	12.00	12.00	[ICRA]A2; reaffirmed and removed from ISSUER NOT COOPERATING category
Total	81.80	81.80	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of NIS Management Limited (NIS) with its five subsidiaries, which have operational linkages with NIS and a common management. NIS has provided a corporate guarantee for a subsidiary's (Keertika Education & Associates LLP) loans. The ratings reaffirmation continues to factor in the extensive experience and established market position of NIS in the domestic security and facility management business, particularly in West Bengal and the company's long relationship with its reputed client base, leading to repeat orders. ICRA notes the Group's association with Government-sponsored skill development programme and vocational training, which help NIS in recruiting and training its large manpower. The ratings also factor in the company's conservative capital structure due to its healthy net worth, aided by sizeable accretion to reserves over the years despite an increase in working capital borrowings in the past two years. ICRA notes that the company's planned equity infusion through an initial public offer may reduce its debt level and strengthen the liquidity position, however, the same is at a nascent stage at present.

NIS' consolidated operating income (OI) in FY2021 and FY2022 remained lower than the pre-Covid level. However, the same grew by ~16% in FY2023 on a YoY basis, surpassing the pre-Covid revenue. NIS remains vulnerable to high geographical concentration risk as the major portion (79% in FY2023) of its turnover is generated from West Bengal. Nevertheless, an increase in revenues from other states is likely to reduce geographical concentration and result in robust revenue growth in the current fiscal, as reflected by ~26% YoY growth in its standalone OI in 9M FY2024. The ratings, however, factor in the fragmented and intensely competitive nature of the private security industry due to the presence of many organised and unorganised players. This exposes the players to contract renewal risks and restricts pricing flexibility, exerting pressure on profit margins, notwithstanding an easing of price-based competition in the recent years due to tightened compliance requirements. Besides, the ratings are constrained by NIS' high working capital intensity of operations due to elevated debtor days and sizeable income tax receivables, resulting in a negative cash flow from operations on a consolidated basis over the last five years and an increase in borrowings.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NIS' established market position in the private security and facility management services and the ongoing geographical expansion are likely to support its revenues. Besides, healthy profits and cash accruals are likely to keep the company's debt coverage metrics and liquidity position comfortable, going forward.

Key rating drivers and their description

Credit strengths

Significant operational track record and established market position in the security services and facility management business, particularly in West Bengal – NIS is one of the established players in the organised security services and facility management industry. The company operates through more than 20 branch offices in 15 states. However, it has a strong market position particularly in West Bengal. NIS provides security service and facility management services including housekeeping, technical maintenance and support etc. The promoters, Mr. Debajit Choudhury and Mrs. Rina Choudhury, have vast experience in the manpower outsourcing and security services industry.

Established relationship with reputed clientele leads to repeat business; robust revenue growth expected in the near term – NIS has an established relationship with a wide customer base comprising several reputed Government as well as private companies. This helps the company get repeat business from the clients. NIS' standalone OI contracted by 12% in FY2021 due to the pandemic but grew by 10% and 15% in FY2022 and FY2023, respectively. With a rise in contracts with the existing clients and new client addition, its revenue is likely to witness a robust growth in the near term, as reflected by ~26% YoY growth in its OI in 9M FY2024 to ~Rs. 270 crore from ~Rs. 214 crore in 9M FY2023.

In-house training and technological capabilities of subsidiaries lend operational strength – NIS' subsidiary, Keertika Academy Private Limited, is involved in manpower training/ skill development under various Government schemes. Another subsidiary, Keertika Education & Associates LLP, runs vocational training institutes in West Bengal. The Group's presence in such activities lends operational strength to NIS, aiding in recruiting and training its large number (~17,000) of employees. Besides, NIS uses software developed by a subsidiary and a Group entity for cyber security, automated monitoring of workforce etc. which strengthen its operational capabilities and provide scopes for deriving additional revenues from such services, going forward.

Conservative capital structure, notwithstanding an increase in debt – NIS' consolidated debt level increased over the last two fiscals mainly due to rising working capital requirements on the back of a recovery in turnover after the pandemic and high working capital intensity of operations. Nevertheless, its healthy tangible net worth, aided by sizeable accretion to reserves over the years, kept the capital structure conservative, as reflected by a consolidated gearing of 0.8 times and TOL/TNW of 1.0 times as on March 31, 2023.

Credit challenges

Fragmented and competitive nature of the industry gives rise to contract renewal risks and restricts pricing flexibility, keeping profitability under check – The company derives almost similar revenues from the security service and facility management segments. As per the industry practice, the company follows a wage-plus-service-charge model for the manpower provided to most of the customers. The industry is fragmented and intensely competitive in nature with the presence of many organised and unorganised players. This leads to a significant price-based competition, giving rise to contract renewal risk and keeping margins under check, primarily in the security service segment. Nevertheless, price-based competition from the unorganised players has eased to some extent owing to an increase in formalisation along with tightened compliance requirements in the recent years. The facility management segment fetches higher margins than security service owing to comparatively value-added nature of the services.

Revenue highly concentrated in West Bengal, however, geographical diversification likely to improve, going forward – The company's sales are concentrated in West Bengal, from where it derived 79% of its total revenues in FY2023. Nevertheless, the company has a large customer base and is in the process of expanding its presence in other states, which is likely to improve geographical diversification, going forward.

Sizeable debtors and income tax receivables leading to high working capital intensity of operations – NIS' debtor days remained high in the recent years (134 days in FY2022 and 109 days in FY2023 on a standalone basis) mainly because of delay

in receipt of payments particularly from the Government and public sector customers. This along with sizeable income tax receivables (~Rs. 44 crore as on March 31, 2023 on a standalone basis) led to a high net working capital relative to the operating income (NWC/OI) of more than 40% over the last three fiscals. This, in turn, led to a negative cash flow from operations and an increase in the borrowings to meet the incremental working capital requirements.

Liquidity position: Adequate

NIS' liquidity position is likely to remain adequate. Its consolidated cash flow from operation remained negative in the recent years due to an increase in the working capital requirement. However, the same is likely to turn positive and improve gradually going forward, aided by some moderation in the working capital intensity of operations and a rise in profits. NIS' undrawn working capital limit at the end of August 2023 stood at a moderate level of ~Rs. 4 crore. However, an enhancement in the fund-based limit by Rs. 10 crore, for which the formal process is likely to be concluded shortly, would provide a liquidity buffer. The Group does not have any major capex plan. The consolidated long-term loan repayment obligation of the Group will remain at ~Rs. 6 crore in FY2024 and ~Rs. 8 crore annually in the following two fiscals. However, sizeable free cash (around Rs. 19 crore on a consolidated basis as on March 31, 2023) would support the liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade NIS' ratings if there is a significant improvement in its revenues, profits and liquidity position on a sustained basis.

Negative factors – Deterioration in the company's debt coverage metrics and/or a stretch in the working capital cycle, adversely impacting the liquidity position, may trigger ratings downgrade. Specific credit metrics that may lead to ratings downgrade include a consolidated interest coverage of less than 3.5 times on a 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 consolidated financial statements of the rated entity along with its five subsidiaries (as mentioned in Annexure-II).

About the company

NIS is the flagship entity of the Kolkata-based NIS Group, promoted by Mr. Debajit Choudhury and Mrs. Rina Choudhury. It commenced operations in 1985 as a firm named National Investigation and Security for providing integrated security solutions. In March 2006, the firm was converted into a private limited company named NIS Management Private Limited. In June 2018, it was converted into a public limited company and the name was changed to NIS Management Limited. NIS, in addition to security service, provides facility management services including housekeeping, technical maintenance and support etc. across 15 states in India. However, it derives the major portion of its revenues from West Bengal.

Key financial indicators (audited)

NIS	Standalone		Consolidated	
	FY2022	FY2023	FY2022	FY2023
Operating income	265.7	305.1	294.2	340.6
PAT	11.6	12.3	13.8	15.0
OPBDIT/OI	8.0%	7.6%	9.0%	8.4%
PAT/OI	4.4%	4.0%	4.7%	4.4%
Total outside liabilities/Tangible net worth (times)	0.9	0.7	1.2	1.0
Total debt/OPBDIT (times)	3.2	2.9	3.3	3.2
Interest coverage (times)	4.1	3.6	3.7	3.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA:

CRA	PR Date	Rating Action
CRISIL	July 18, 2023	CRISIL B/Stable ISSUER NOT COOPERATING*; Revised from CRISIL BB+/Stable ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best-available information

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Jan 31, 2024	Nov 21, 2023	Aug 04, 2022	Jul 19, 2022	Apr 05, 2021	Feb 12, 2021
1	Term Loan	Long term	10.30	10.80	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING*	[ICRA]BBB+ (Stable)	-	-	-
2	Cash Credit	Long term	56.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING*	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING*
3	Standby Line of Credit	Short term	3.50	-	[ICRA]A2	-	-	-	-	-
4	Bank Guarantee	Short term	12.00	-	[ICRA]A2	[ICRA]A2; ISSUER NOT COOPERATING*	[ICRA]A2	[ICRA]A2; ISSUER NOT COOPERATING*	[ICRA]A2	[ICRA]A4+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Term Loan	Simple
Long term - Fund-based – Cash Credit	Simple
Short term - Fund-based – Standby Line of Credit	Simple
Short term - Non-Fund based – Bank Guarantee	Very Simple

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	Term Loan	Nov 22, 2021	-	Dec 2026	10.30	[ICRA]BBB+ (Stable)
NA	Cash Credit	-	-	-	56.00	[ICRA]BBB+ (Stable)
NA	Standby Line of Credit	-	-	-	3.50	[ICRA]A2
NA	Bank Guarantee	-	-	-	12.00	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	NIS Ownership	Consolidation Approach
NIS Facility Management Services Private Limited	100.00%	Full Consolidation
NIS Ace Management Private Limited	99.86%	Full Consolidation
Keertika Academy Private Limited	99.86%	Full Consolidation
Keertika Education & Associates LLP^	99.97%	Full Consolidation
Achilles Resolute Private Limited	51.00%	Full Consolidation

Source: NIS annual report for FY2023; ^NIS has provided a corporate guarantee of Rs. 5.15 crore for loans availed by Keertika Education & Associates LLP

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Branches



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