

Rating Rationale

June 22, 2022 | Mumbai

Nikhil Adhesives Limited

Ratings upgraded to 'CRISIL BBB/Positive/CRISIL A3+'

Rating Action

Total Bank Loan Facilities Rated	Rs.100 Crore
Long Term Rating	CRISIL BBB/Positive (Upgraded from 'CRISIL BBB-/Positive')
Short Term Rating	CRISIL A3+ (Upgraded from 'CRISIL A3')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank loan facilities of Nikhil Adhesives Limited (NAL) to '**CRISIL BBB/Positive/CRISIL A3+**' from '**CRISIL BBB-/Positive/CRISIL A3**'

The rating upgrade reflects expectation of sustained improvement in the business risk profile supported by sharp growth in company's revenue driven by higher volumes on back of increased demand and better realizations. Company recorded revenue of over Rs. 814 crores in fiscal 2022, recording an increase of almost 68% over the revenue of Rs.485 crores in fiscal 2021. Operating margin was at over 5.4% in fiscal 2022 on back of better realization and sustained operating efficiency. Consequently, firm's financial risk profile has improved with higher networth estimated at around Rs.85 crores and better capital structure.

CRISIL Ratings continues to reflect the established position of the company in the emulsions and adhesives segment. The company continues to benefit from promoters' experience and comfortable financial risk profile. These strengths are partially offset by moderate scale of operations amidst large and well-established players and high working capital requirements.

Key Rating Drivers & Detailed Description

Strengths:

Established relations with the customers and suppliers supported by extensive experience of the promoters: NAL has a strong business profile, backed by its promoters' extensive experience of over three decades in the emulsions and adhesive manufacturing industry. Their extensive experience in the industry has helped the company establish its name and association with large and reputed clientele like Akzo Nobel, Dow Chemicals, Kansai Nerolac and Asian Paints for paint emulsions. On the back of its established position, established customer base and diversified product portfolio, NAL has been able to grow its revenues at a healthy CAGR of 20% over the last five fiscals ended 2022. Since the company is engaged in multiple segments like paint emulsions, textile adhesives, consumer adhesives, industrial adhesives and construction chemicals, hence this mitigates the risk from concentration in any one segment and thus supports the overall margin.

Comfortable financial risk profile: The networth was healthy at Rs 85.45 crore and low gearing of 0.25 times, as on March 31, 2022. The net cash accrual to adjusted debt and interest coverage ratio were adequate at 1.39 times and 7.46 times respectively in fiscal 2022. This is however partially offset by moderately high total outside liabilities to tangible networth (TOLTNW) ratio of 2.52 times as on March 31, 2022. With moderate profitability, sustenance of the working capital cycle, and absence of any major debt-funded capital expenditure plans, the financial risk profile should remain comfortable over the medium term.

Weaknesses:

Large scale of operations amidst large and well-established players: Revenue growth has been supported by healthy demand, favorable prices, and healthy offtake from new and existing plants. Despite revenue improving over the last 5 fiscals, scale remains moderate amidst the other large and well-established players. Operating margin has also been moderate between 3.5%-5% through past 5 fiscals ended 2020 which improved to 6.4% as a one-off instance because of lower travelling and conveyance and advertising and flattish employee expenses. In fiscal 2022, the same improved to 5.4% in fiscal 2022 with better costs absorption and passing on cost increase to customers.

Moderately high working capital requirements: NAL has moderately high working capital requirements, with Gross Current Asset (GCA) days ranging between 119-145 days over last five fiscals ended 2021. GCAs improved to 105 days in fiscal 2022 with faster collections at 65 days and better inventory management of 36 days.

Liquidity: Adequate

Bank limit utilisation has been at around 25% for the past ten months ended March 2022. Cash accrual are expected to be over Rs 35-45 crores which are sufficient against term debt obligation of Rs 4-6 crore over the medium term. In addition, it will be act as cushion to the liquidity of the company. Current ratio was moderate at 1.19 times as on March 31, 2022.

Outlook: Positive

CRISIL Ratings believes that NAL's business risk profile will continue to improve driven by the healthy demand, extensive experience of its promoters and established relationships with customers and suppliers.

Rating Sensitivity Factors

Upward Factors

- Healthy and sustained growth in revenue of 20% with better operating margin around 6% leading to higher net cash accruals.
- Improvement in working capital cycle and improvement in financial risk profile.

Downward Factors

- Steep decline in revenue or decline in operating margin resulting in accruals below Rs . 15 crores.
- Weakening of capital structure leading to high TOLTNW on a sustained basis because of increasing working capital requirements or debt funded capex.

About the Company

Incorporated in 1982 and based in Mumbai, NAL is promoted by Mr. Umesh Sanghavi, Mr. Rajesh Sanghavi, Mr. Tarak Sanghavi and Mr. Ashok Sanghavi. The company is ISO 9001 certified and is engaged in the manufacturing of speciality adhesives and emulsion through its manufacturing facilities in Dahanu (Maharashtra), Silvassa (Dadra Nagar Haveli), Dahej (Gujarat), and Bangalore (Karnataka) while its registered office is based in Mumbai. The company also trades in chemicals used in emulsions and adhesives industry.

Key Financial Indicators

As on/for the period ended March 31	Units	2022	2021
Operating income	Rs.Crore	814.32	489.14
Reported profit after tax	Rs.Crore	25.26	15.65
PAT margins	%	3.1	3.2
Adjusted Debt/Adjusted Networth	Times	0.25	0.42
Interest coverage	Times	7.46	4.70

Status of non cooperation with previous CRA

NAL has not cooperated with Infomerics Valuation and Rating Private Limited (Infomerics) which has classified it as non-cooperative vide release dated February 1, 2021. The reason provided by Infomerics is lack of adequate information and non payment of annual surveillance fees.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	25	NA	CRISIL BBB/Positive
NA	Letter of Credit	NA	NA	NA	75	NA	CRISIL A3+

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	25.0	CRISIL BBB/Positive		--	30-07-21	CRISIL BBB-/Positive	09-04-20	CRISIL BBB-/Stable		--	--
			--		--		--	17-03-20	CRISIL BBB-/Watch Developing		--	--
			--		--		--	31-01-20	CRISIL BBB-/Stable		--	--
Non-Fund Based Facilities	ST	75.0	CRISIL A3+		--	30-07-21	CRISIL A3	09-04-20	CRISIL A3		--	--
			--		--		--	17-03-20	CRISIL A3/Watch Developing		--	--
			--		--		--	31-01-20	CRISIL A3		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	5	DBS Bank India Limited	CRISIL BBB/Positive
Cash Credit	5	Bank of India	CRISIL BBB/Positive
Cash Credit	10	YES Bank Limited	CRISIL BBB/Positive
Cash Credit	5	Standard Chartered Bank Limited	CRISIL BBB/Positive
Letter of Credit	20	YES Bank Limited	CRISIL A3+
Letter of Credit	17	Standard Chartered Bank Limited	CRISIL A3+
Letter of Credit	18	Bank of India	CRISIL A3+
Letter of Credit	20	DBS Bank India Limited	CRISIL A3+

This Annexure has been updated on 22-Jun-2022 in line with the lender-wise facility details as on 22-Apr-2022 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for rating short term debt
Understanding CRISILs Ratings and Rating Scales

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Rahul Subrato Kumar Guha Director CRISIL Ratings Limited D:+91 22 4097 8320 rahul.guha@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Jumana Badshah Associate Director CRISIL Ratings Limited D:+91 22 3342 8324 Jumana.Badshah@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Rushabh Pramod Borkar Team Leader CRISIL Ratings Limited B:+91 22 3342 3000 Rushabh.Borkar@crisil.com	

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about ratings by CRISIL Ratings

are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>