# Nahar Poly Films Limited

January 07, 2022

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 220.98<br>(Reduced from 232.00) | CARE A-; Positive<br>(Single A Minus; Outlook: Positive) | Reaffirmed; Outlook revised from Stable |
| Short Term Bank Facilities | 15.00 | CARE A2+<br>(A Two Plus) | Reaffirmed |
| **Total Bank Facilities** | **235.98<br>(Rs. Two Hundred Thirty-Five Crore and Ninety-Eight Lakhs Only)** | | |

Details of instruments/facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Nahar Poly Films Limited (NPFL) continue to derive strength from experienced promoters, high financial flexibility enjoyed by virtue of it being part of diversified Nahar group, wide-range of product profile and broad customer base. The ratings further derive strength from the established brand name, growing scale of operations with healthy profitability margins reported in FY21 *(refers to period from April 01 to March 31)* and H1FY22 *(refer to period from April 01 to September 30)*, comfortable overall solvency position despite large debt funded capex undertaken in the past two fiscals, and efficient working capital management. The rating takes cognizance of large-size expansion capacity for biaxially-oriented polypropylene (BOPP) films under advanced stage of commissioning with expected commercial operation date from January 2022 and remains exposed to the stabilization and off-take risk for the augmented capacity.

The ratings, however, remain constrained by susceptibility of margins to raw material price fluctuations, product mix sold and foreign exchange fluctuations along with highly competitive nature of the industry.

**Rating Sensitivities**

**Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Stabilization of the project in a timely manner, thereby leading to enhanced capacity and subsequently sustainable increase in the scale of operations.
- Increase in the proportion of higher value-added products thereby leading to heathy and sustainable PBILDT margin at current levels.

**Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Any major deterioration in the capital structure with overall gearing ratio deteriorating beyond 1x.
- Any further investments made in associate concerns beyond current levels on a sustained basis which may adversely impact the liquidity position of the company.

**Outlook: Positive**

The revision in the outlook from stable to positive reflects expected improvement in the operational performance of the company in current year backed by increase in scale of operations and better sales realizations as a result of augmented capacities after the commencement of project by January 2022 and higher contribution from the value-added products. The sustainability of these margins along with healthy capacity utilization will be a key monitorable. The outlook may be revised from Positive to Stable in case of lower than envisaged operational performance for full FY22.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Experienced promoters with high financial flexibility being part of Nahar group**

NPFL belongs to the reputed Nahar Group which was established by late Mr. Vidya Sagar Oswal with diverse business interests in textiles, retail, BOPP films, renewable power, real estate, sugar and financial services. Currently, Mr. J.L. Oswal, son of Mr. Vidya Sagar Oswal holds the chairman position on the board of directors of NPFL and other group companies. He has more than 50 years of experience in the textile and woollen industry. Other directors of the company include Mr. Kamal Oswal (s/o Mr. J.L. Oswal and Vice-Chairman-cum-Managing Director of Nahar Industrial Enterprises Limited) and Mr. Dinesh Oswal [s/o Mr. J.L. Oswal and Managing Director of Nahar Spinning Mills Limited (NSML) and Nahar Capital and Financial Services Limited (NCFSL)], who have an industry experience of over 3 decades respectively. The promoters of the company are supported by well qualified professionals with separate heads for each department. Long operational history of the group and NPFL itself has enabled the company to establish strong relations with its customers and suppliers.

Being part of the Nahar group, the company enjoys ample financial flexibility with investments in group entities (~Rs. 109 Cr.) and free cash and bank balance to the tune of Rs.3.45 Cr., as on September 30, 2021. The promoters/ promoter group entities hold 66.44% shareholding in NPFL, with Nahar Capital and Financial Services Limited (NCFSL) holding 49.16%, as on March 31, 2021 and Nahar Spinning Mills Limited (NSML) holding 17.28% stake as on March 31, 2021. Further, NPFL held 39.48% stake

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

in NCFSL and 19.14% in NSML, as on March 31, 2021. In the past, it has been observed that the promoters and promoter group companies have extended need based financial support to other group companies.

**Diversified customer base and product profile**
The company caters to more than 200 customers spread across India through established network of its own marketing personnel and dealers. Also, the company has fairly diversified customer profile with top-5 customers contributing ~40% to the total operating income in FY21 (PY: ~43%) with none of them comprising of more than 15% of company's top-line.
NPFL's product profile is diversified as it manufactures BOPP films of varied grades and thicknesses that find application in laminations, reverse printing, packaging, decoration, tapes and textile bags. Furthermore, the company also exports its products to various countries such as UK, Nigeria, United Kingdom, Bangladesh, United Arab Emirates (UAE), Turkey, Oman, Tanzania, Nepal, Slovak Republic etc. Exports contributed ~4% of NPFL's revenue in FY21 (~6% in FY20).

**Growing scale of operations with healthy profitability margins**
The company has reported growth in the total operating income at a CAGR of 7.31% over the past three fiscals ending FY21 mainly on account of increased demand from its customers and the nature of product-mix sold. The same increased by 9% y-o-y and stood at Rs.307.84 crore vis-à-vis Rs. 281.15 crore during FY20.
The PBILDT margin significantly improved by 634 bps and stood at 22.73% during FY21 (PY: 16.39%). The same has been due to improved sales realization due to higher proportion of income from value added products like metallized films, thin films, etc. Also, raw material cost moderated and stood at 63.30% of total gross sales in FY21 (PY: 69%). Further, the PAT margin also improved and stood at 16.71% during FY21 (PY: 11.70%).
H1FY22 performance: In H1FY22, owing to the improved capacity utilization and subsequently higher quantity sold, the company reported ~58% y-o-y growth in the total operating income which stood at Rs.213.44 crore as against Rs. 134.90 crore in H1FY21. The same was even better than the pre-covid level sales of Rs.138 crore reported in H1FY21. Further, due to the increasing focus on value-added products, the sales realization improved and stood at Rs. 1,69,200 per MT in H1FY22 as against Rs. 1,40,485 per MT in FY21. The PBILDT and PAT margin stood comfortable at 21.82% and 15.95% respectively (H1FY21: 22.44% and 16% respectively).

**Comfortable solvency position**
The total debt of the company stood at Rs.113.28 crore as on March 31, 2021, primarily comprising of term loans followed by working capital borrowings. Despite the term debt availed by the company for the purpose of project spread over FY20-FY22, the overall gearing ratio of the company, remained at a comfortable level and stood at 0.40x, as on March 31, 2021 (PY: 0.02x as on March 31, 2020). Further, the adjusted overall gearing after factoring in the investments into associate concerns, stood at 0.67x as on March 31, 2021 (PY: 0.03x).
The total debt to GCA ratio also moderated, yet stood comfortable at 1.08x, as on March 31, 2021 (PY: 0.10x). The interest coverage ratio of the company improved further and stood at ~207x in FY21 (PY: ~162x) due to improved profitability and lower interest expenses incurred by the company.

**Key Rating Weaknesses**
**Advanced stage of completion of project albeit stabilization risk**
The company has undertaken capex to enhance its existing capacities for manufacturing of BOPP films at a total project cost of Rs.263 crore up to the latest date spread over FY20-FY22 period. The capex will increase the installed capacities for manufacturing of BOPP films from existing 30,000 TPA to 60,000 TPA. The technologically updated machinery has been procured and is under installation to replace the existing set-up which had been a decade old. The project has been set-up in the existing manufacturing premises of the company located in Raisen district of Madhya Pradesh comprising of 13.21 acres of land area. It has been funded using total debt of Rs.172.86 crore and balance through internal accruals of the company.
The project was expected to achieve COD by July, 2021 however post revival of operations at the unit after COVID-19 led disruptions, the progress on the project had remained slow due to constraints on labour front with likely commencement of operations now expected from January, 2022. This project would lead to save on the overhead costs by the company post commission of the new unit leading to economies of scale. Further, as per the investment promotion assistance by the state government (for projects with investment of more than 10 cr.), the company is expected to receive investment assistance of ~Rs.40 Cr. which would be received in 7 years post commissioning of the project. However, the stabilization of this project in a timely manner, thereby leading to sustainable increase in the scale of operations would remain key rating monitorable.

**Susceptibility to fluctuations in raw material prices, foreign exchange fluctuations and product-mix sold**
The raw material cost constituted ~63% of the total gross sales in FY21 (PY: ~69%) with prices of the key raw materials viz. resins and additives (polypropylene) remaining fluctuating in nature due to their dependence on crude oil prices which themselves are highly volatile. The profitability margins also remained vulnerable to changes in product mix sold since BOPP films of non-tape/metalized grade (generally customized as per client requirements) deliver better margins as compared to tape grade. The margins of the company were also exposed to foreign exchange fluctuations. The company, in FY21, earned approximately 4% of its total income from exports in the past while it imported around 10% of its raw material requirements. Though this provided a natural hedge to a certain extent, the profitability margins of the company still remained exposed to any adverse fluctuations in the foreign exchange prices, in the absence of any hedging mechanism. In FY21, the company reported a profit of Rs.0.20 Cr. from foreign exchange fluctuations (PY: loss of Rs.0.24 Cr. in FY20).

**Highly competitive and fragmented nature of the industry; albeit established brand name**
BOPP film is one of the most popular raw materials used by the flexible packaging industry all over the world. The growth in demand for BOPP Film has been substantial in both developed as well as emerging markets due to its recyclable nature and applicability in various of non- food and food products. The flexible packaging market in India is poised to grow by USD 12.72 billion during 2021- 2025, progressing at a CAGR of almost 11% during the forecast period.
The Indian packaging industry is a combination of organised large Indian and International companies and the unorganised small and medium local companies. NPFL operates in a competitive segment of the packaging industry which is affected by low profitability due to highly fragmented industry, low entry barriers, presence of large number of unorganized players and regular capacity additions by the companies. This puts pressure on the profitability margins of the companies operating in the industry. However, this risk is mitigated to some extent as the company sells its products under the brand "Nahar" which is widely recognized.

**Liquidity: Strong**
Liquidity is marked by strong accruals against negligible repayment obligations of Rs.2.35 crore in FY22 and mutual fund investments of Rs.13.32 crore with free cash and bank balance to the tune of Rs.3.45 crore, as on September 30, 2021. Further, the company has also invested into the quoted shares of its group companies viz. Nahar Capital and Financial Services Limited and Nahar Spinning Mills Limited. As against the fair value of these listed investments of Rs.108.54 crore as on March 31, 2021, the market value of such holding stood at Rs.585.68 crore as on December 31, 2021. With gearing of 0.21x as on March 31, 2021, the company has sufficient gearing headroom, to raise any additional debt going forward. Its bank limits were utilized to the extent of 41.5% for the trailing twelve months ending November, 2021 and had more than unity current ratio of 2.78x as on March 31, 2021.
The operating cycle of the company also improved to ~34 days, as on March 31, 2021 from ~40 days, as on March 31, 2020 mainly on account of improvement in average collection days. The company offers a credit period ranging from cash basis to ~1.5 months to the its customers of BOPP films (including customized products), which has led to overall collection period of ~12 days as on March 31, 2021 (PY: ~20 days). NPFL manufactures BOPP films of varied grades and thickness, as a result, it is required to maintain adequate inventory in the form of raw material to ensure smooth production process which resulted in average inventory period of ~32 days, as on March 31, 2021 (PY: ~30 days). The company receives an average credit period of around one month from its suppliers of various consumables while the procurement of BOPP resins and additives granules (the primary raw materials) from Reliance Industries Limited is mostly done in advance.

**Analytical approach:** Standalone
**Applicable Criteria**
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

**About the Company**
Incorporated in the year 1988 and based in Ludhiana (Punjab), Nahar Poly Films Limited (NPFL) is a part of the Nahar Group of Industries (Nahar Group), which is managed by Mr. J L Oswal and his family members. Earlier, the company was engaged in textile and investments business under the name of Nahar Exports Ltd (NEL). Pursuant to the scheme of Arrangement and Demerger in 2006, the textile division of NEL demerged from it and merged into Nahar Spinning Mills Limited (NSML). The residual activity (investment division) of NEL was later renamed as Nahar Investments & Holding Ltd (NIHL). Subsequently, in June 2008, the name of the company was changed to NPFL. NPFL commissioned a biaxially-oriented polypropylene (BOPP) plant with an installed capacity of 30,000 tonne per annum (TPA) in Madhya Pradesh which commenced operations in May 2010. The company belongs to the seven decade old Nahar Group which has a diversified presence in businesses such as textiles, retail, BOPP films, renewable power, real estate, sugar and financial services through its various companies including Oswal Woollen Mills Limited, Monte Carlo Fashions Ltd., Nahar Spinning Mills Ltd., Nahar Industrial Enterprises Ltd., among others.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | H1FY22 (UA) |
|---|---|---|---|
| Total operating income | 281.15 | 307.84 | 213.44 |
| PBILDT | 46.07 | 69.97 | 46.57 |
| PAT | 32.90 | 51.44 | 34.04 |
| Overall gearing (times) | 0.02 | 0.40 | 0.50 |
| Interest coverage (times) | 162.10 | 206.64 | 145.53 |

A: Audited; UA: Unaudited
**Status of non-cooperation with previous CRA:** Not Applicable
**Any other information:** Not Applicable
**Rating History for last three years:** Please refer Annexure-2
**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
**Complexity level of various instruments rated for this company**: Annexure 4

**Annexure-1: Details of Instruments / Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-fund-based - ST-BG/LC | | - | - | - | 15.00 | CARE A2+ |
| Fund-based - LT-Working Capital Limits | | - | - | - | 42.00 | CARE A-; Positive |
| Fund-based - LT-Term Loan | | - | - | September-2029 | 178.98 | CARE A-; Positive |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based - LT-Term Loan | LT | - | - | - | - | - | 1)Withdrawn (12-Mar-19) |
| 2 | Non-fund-based - ST-BG/LC | ST | 15.00 | CARE A2+ | - | 1)CARE A2+ (21-Dec-20) | 1)CARE A2+ (CWD) (24-Oct-19) | 1)CARE A2+ (12-Mar-19) |
| 3 | Fund-based - LT-Working Capital Limits | LT | 42.00 | CARE A-; Positive | - | 1)CARE A-; Stable (21-Dec-20) | 1)CARE A- (CWD) (24-Oct-19) | 1)CARE A-; Stable (12-Mar-19) |
| 4 | Fund-based - LT-Term Loan | LT | 178.98 | CARE A-; Positive | - | 1)CARE A-; Stable (21-Dec-20) | 1)CARE A- (CWD) (24-Oct-19) | - |

* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based - LT-Working Capital Limits | Simple |
| 3 | Non-fund-based - ST-BG/LC | Simple |

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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**About CARE Ratings Limited:**
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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