# Nahar Poly Films Limited

January 02, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 188.10 (Reduced from 210.45) | CARE A; Stable | Reaffirmed |
| Short Term Bank Facilities | 12.00 | CARE A1 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Nahar Poly Films Limited (NPFL) factors in high financial flexibility enjoyed by NPFL by virtue of it being part of diversified Nahar group, comfortable financial risk profile marked by low overall gearing, and strong liquidity position. The ratings further derive strength from experienced promoters and efficient working capital management. The ratings, however, remained constrained by susceptibility of margins to volatility in raw material prices, exposure to foreign fluctuation risk along with high competition, and operations remain exposed to the government regulations and geography specific risks in export markets. The ratings also taken in cognizance of decline in operating performance as marked by moderation in profitability margins and scale of operations in H1FY24 (refers to the period from April 01, 2023 to September 30, 2023) driven by decline in realization price of BOPP films which is inherent in this industry owing to overcapacity and excess supply creating demand-supply imbalance exerting pressure on profitability margins. The PBILDT margins of the company are expected to improve from Q4FY24 onwards which will remain a key rating monitorable.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Sustained improvement in the scale of operations with beyond Rs 850 crore along with improvement in PBILDT margin above 18%.
- Sustained improvement in return on capital employed (ROCE) beyond 21%

**Negative factors**

- Decline in PBILDT margin below 14% on a sustained basis.
- Any un-envisaged debt-funded capital expenditure deteriorating its capital structure at above 0.50x.
- Any further investments made in associate concerns beyond current levels.

## Analytical approach: Standalone

## Outlook: Stable

CARE Ratings believes that the entity shall sustain its strong financial risk profile over the medium term on back of its strong liquidity profile. CARE also believes that improvement in cash accruals of the company over medium term shall further support its liquidity profile.

## Detailed description of the key rating drivers:

## Key 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 amounting to ~Rs.223 crore as on September 30, 2023. The promoters/ promoter group entities hold 71.05% shareholding in NPFL, with Nahar Capital and Financial Services Limited (NCFSL) holding 49.16%, and Nahar Spinning Mills Limited (NSML) holding 17.73% stake as on March 31, 2023. Further, NPFL held 39.48% stake in NCFSL and 19.14% in NSML, as on March 31, 2023. In the past, it has been observed that the promoters and promoter group companies have extended need based financial support to other group companies.

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

**Diversified customer 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-10 customers contributing ~54% to the total operating income in FY23 (refers to the period from April 01, 2022 to March 31, 2023) (PY: ~46% of total operating income) 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 ~9% of NPFL's revenue in FY23 (~7% in FY22).

**Comfortable financial risk profile:** The overall gearing of the company although comfortable moderated slightly to 0.36x as on March 31, 2023 (PY: 0.29x). The same was primarily on account of reduction in tangible net-worth by ~Rs.152.00 crore in FY23 owing to reduction in investment in Nahar Spinning Mills Limited (NSML) as a result of reduction in market value of NSML. Debt Coverage indicators of the company continued to remain comfortable as reflected by PBILDT interest coverage of 6.60x in FY23 (PY: 40.65x) and total debt/GCA of 2.64x (PY: 1.84x) in FY23.

## Key weaknesses

**Significant moderation in profitability:** The realization price of BOPP films has declined substantially during FY23 and H1FY24 as a result of excess supply of the same (there were sizeable capacity additions over the last 2 fiscals in the BOPP films industry). This has resulted in moderation in operating performance during FY23 and H1FY24. Although, the total operating income of the company grew by ~48% to Rs.723.19 crore in FY23 (PY: Rs.489.27 crore) largely driven by ~71% volume growth, the PBILDT margin of the company declined to 11.29% (PY: 24.46%) owing to softening of prices during FY23 which resulted in company selling its manufactured goods at lower prices while inventory for the same was procured at higher prices. The same led to decline in PAT margin to 4.42% in FY23 (PY: 17.92%). During H1FY24, the total operating income of the company declined by ~30% to Rs.293.21 crore (PY: Rs.414.73 crore). However, there was a ~10% growth in quantity of BOPP films sold in H1FY24. The PBILDT margin of the company declined further to 6.77% in H1FY24 (PY: 14.11%) owing to increase in fixed overheads like employee salary and wages, and power and fuel cost as a percentage of total operating income on account of decline in scale of operations. The same led to decline in PAT margin to 0.85% in H1FY24 (PY: 7.64%). Going forward, CARE expects the PBILDT margin to remain subdued in the range of ~6% for FY24.

**Highly competitive and fragmented nature of industry; albeit, established brand name**: 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 leading to a fall in product realisations. However, this risk is mitigated to some extent as the company sells its products under the brand "Nahar" which is widely recognized. Currently, the industry is undergoing over-capacity and excess supply creating demand-supply imbalance exerting pressure on profitability margins.

**Susceptibility of margins to volatility in raw material prices and exposure to foreign fluctuation risk**: The company is susceptible to the fluctuations in raw material prices. The operations of NPFL are raw material intensive in nature with the material cost constituting ~73% of the total operating income in FY23 (PY: ~62%). The prices of the key raw materials viz. BOPP resins and additives (polypropylene) are fluctuating in nature as these are dependent on crude oil prices which themselves are highly volatile in nature. Furthermore, the limited suppliers of these raw materials make it a sellers' market with limited bargaining power for buyers. Accordingly, profitability of packaging material producers is highly susceptible to raw material fluctuations. Furthermore, the margins are also vulnerable to changes in product mix of orders executed since BOPP films of non-tape/metalized grade (generally customized as per client requirements) delivers better margins as compared to tape grade. Export comprise of 9% of the total income of the company against imports of 10% of total raw material requirements, thus providing natural hedge to an extent. The company also books forward contracts from time to time to hedge a part of the exposure. However, since the complete exposure of the company is not hedged, it is exposed to any adverse fluctuation in the foreign exchange prices.

**Operations remain exposed to the government regulations and geography specific risks in export markets**: Given the environment hazards of plastics, the sector is directly affected by any government regulations or policies/announcements. Regulatory risk specific to a geography also exist. Some of the countries impose some regulations towards automotive films. For e.g. India has imposed a ban on single-use plastics in an effort to tackle the country's rapidly increasing levels of plastic pollution. The ban includes straws, cutlery, ear buds, packaging films and cigarette packets, among other products, usage of black films on car windows/windscreens.

**Industry Prospects:** The future of the global BOPP films market looks promising because of continuous growth in the packaged foods market around the world. The rapid expansion in e-commerce especially in food and beverages, modernization of retail business, urbanization of cities, rising income levels and changes in consumption pattern of the consumers will give further push to the demand for flexible packaging. Post COVID-19 Pandemic, new trends have emerged and adopted by various companies in the packaging industry. From smart packaging to sustainable and safe packaging with innovation and artistic touch, the packaging trends have gained a lot of prominence in the food, pharmaceutical, beverage, cosmetic and other FMCG industries. Moreover, due to the upsurge in the demand for packaged food and rise in e-commerce amid the covid crisis, the Packaging sector took an exponential rise, which helps the BOPP Films market to sustain and grow. With the increased economic activity and growth of the Global economies, the demand for BOPP Films will grow significantly both in domestic as well as globally, over the coming years.

Also, the growth in Food & Beverages, Pharmaceuticals, Personal Care, Electrical & Electronics and other sectors will give a further boost to the BOPP film industry. The BOPP film industry is continuously upgrading its technology to develop fresh new prospects in the packaging industry and maintain its core competence and convert it into the competitive edge over others.

**Liquidity: Strong**: The liquidity profile of the company remains strong as reflected by projected gross cash accruals of Rs.31.60 crore in FY24 against scheduled term loan repayment of Rs.22.35 crore. Further, the average utilization of working capital borrowings stood low at only ~9% for the trailing 12 months ended October 31, 2023. Further, the company had free cash and bank balance of Rs.32.68 crore and investments in mutual funds, debentures, and interest-bearing bonds (quoted at market value) to the tune of Rs.55.04 crore and Rs.82.05 crore as on March 31, 2023 and September 30, 2023 respectively. The company is planning to incur regular maintenance capex of Rs.5.00 crore annually which shall be funded through internal accruals.

## 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 and industry

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. In FY22, company has set up another BOPP line for 30,000 TPA, commercialised in Feb 2022 (as on March 31, 2022, total installed capacity stood at 60,000 TPA). 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.

## Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer Discretionary | Consumer Durables | Consumer Durables | Plastic Products - Consumer |

| Brief Financials (₹ crore) | FY22 (A) | FY23 (A) | H1FY24 (UA) |
|---|---:|---:|---:|
| Total operating income | 489.27 | 723.19 | 293.21 |
| PBILDT | 119.66 | 81.68 | 19.86 |
| PAT | 87.68 | 31.94 | 2.49 |
| Overall gearing (times) | 0.29 | 0.36 | 0.29 |
| Interest coverage (times) | 40.65 | 6.60 | 3.21 |

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**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**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | September-2029 | 134.10 | CARE A; Stable |
| Fund-based - LT-Working Capital Limits | | - | - | - | 54.00 | CARE A; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 12.00 | CARE A1 |

## Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Non-fund-based - ST-BG/LC | ST | 12.00 | CARE A1 | - | 1)CARE A1 (26-Dec-22) | 1)CARE A2+ (07-Jan-22) | 1)CARE A2+ (21-Dec-20) |
| 2 | Fund-based - LT-Working Capital Limits | LT | 54.00 | CARE A; Stable | - | 1)CARE A; Stable (26-Dec-22) | 1)CARE A-; Positive (07-Jan-22) | 1)CARE A-; Stable (21-Dec-20) |
| 3 | Fund-based - LT-Term Loan | LT | 134.10 | CARE A; Stable | - | 1)CARE A; Stable (26-Dec-22) | 1)CARE A-; Positive (07-Jan-22) | 1)CARE A-; Stable (21-Dec-20) |

*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the 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 |

## Annexure-5: Lender details

| To view the lender wise details of bank facilities please click here |
|---|

**Note on the complexity levels of the rated instruments:** CARE Ratings 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 us:**
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