Nahar Poly Films Limited
December 26, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	210.45 (Reduced from 220.98)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short Term Bank Facilities	12.00 (Reduced from 15.00)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**222.45 (₹ Two Hundred Twenty-Two Crore and Forty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers
The revision in the ratings assigned to the bank facilities of Nahar Poly Films Limited (NPFL) factors in continued improved operational performance during FY22 (refers to the period April 01 to March 31) marked by higher than envisaged total operating income and profitability margins on the back of higher contribution from valued added films, increase in demand of packaging foods and commercialisation of new unit with an installed capacity of 30,000 tonnes per annum. The ratings further continue to derive strength from experienced promoters, high financial flexibility enjoyed by virtue of it being part of diversified Nahar group, wide-range of products and broad customer base. The ratings further derive strength from comfortable financial risk profile marked by low overall gearing, despite large debt funded capex undertaken in the past two fiscals, and efficient working capital management. The ratings, however, remain constrained by susceptibility of margins to volatility in raw material prices and exposure to foreign fluctuation risk along with high competition and operations remain exposed to the government regulations and geography specific risks in export markets

Rating sensitivities
Positive factors – Factors that could lead to positive rating action/upgrade:
- 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 – Factors that could lead to negative rating action/downgrade:
- Decline in PBILDT margin below 14%
- 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.

Detailed description of the key rating drivers
Key rating strengths
Improved operational performance albeit decline in profitability margins in H1FY23
The company has recorded growth in its total operating income (TOI) by ~60% during FY22 and stood at Rs 489.08 crore (PY: Rs. 303.66 crore) driven by the rise in e-commerce, food industry, pharmaceuticals and other FMCG industries thereby leading to increase in volume growth from 21,550MT in FY21 to 26,952MT in FY22 along with improvement in realisation prices from Rs 1,40,485 in FY21 to Rs 1,81,504 in FY22. The growth is further supported by increase in the installed capacity from 30000 MT to 60000 MT which was commissioned in Feb 2022. With the continued focus on the growth of packaging industry, BOPP films are gaining traction in multiple industries. Despite increase in the raw material prices, PBILDT margin grew by 276 bps from 21.66% in FY21 to 24.43% in FY22 as the company benefited from the sale of value-added products like metallized films, thin films, etc having higher margins.
H1FY23: The company has reported TOI of Rs 418.76 crore with PBILDT margin of 14.93% as against Rs 213.44 crore and 21.82% respectively. Due to softening of prices in Q2FY23, company margins impacted while selling its manufactured goods from the inventory procured at higher prices. Further, being linked directly with the commodity, company remains exposed to the volatility in raw material prices. During FY22, company reported better PBILDT margin as there was pent up demand for packaged and branded food products and rise in e-commerce which was primarily driven by outbreak of COVID-19, however, the same is unlikely to sustain in long run as seen from H1FY23 performance signifying stabilised demand and increase in competition.

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.

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

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. 405 crore as on March 31, 2022. The promoters/ promoter group entities hold 70.65% shareholding in NPFL, with Nahar Capital and Financial Services Limited (NCFSL) holding 49.16%, and Nahar Spinning Mills Limited (NSML) holding 17.64% stake as on March 31, 2022. Further, NPFL held 39.48% stake in NCFSL and 19.14% in NSML, as on March 31, 2022. 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 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 ~40% to the total operating income in FY22 (PY: Top 5 customers contributed to ~40%) 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 ~6% of NPFL's revenue in FY22 (~4% in FY21).

Comfortable financial risk profile:

The capital structure of the company is satisfactory marked by overall gearing of 0.29x as on March 31, 2022 (PY: 0.21x). Moderation in the overall gearing is on account of the setting up of additional line of BOPP films started in FY20 for which disbursement of the term loan amounting to Rs 125 crore was taken in FY22. Further, the debt coverage indicators also stood comfortable with Total Debt/GCA and interest coverage to 1.84x and 40.59x (PY: 1.11x & 194.27x, respectively), respectively as on March 31, 2022. The debt metrics are expected to remain strong, with the new capacity to become fully operational and generate cashflows, along with reduction in debt by way of scheduled principal repayments with no additional debt-funded capex envisaged going forward.

Key rating weaknesses

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. 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.

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 ~62% of the total operating income in FY22 (PY: ~63%). 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. Further, only about 6% of the total income of the company is from exports against which the company imports 10% of 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. In FY22, the company reported a profit of Rs.0.33 crore from foreign exchange fluctuations (PY: Rs.0.20 Cr. in FY21).

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: Adequate

The company enjoys healthy liquidity with expected cash accruals of Rs 87.37 crore against repayment obligations of Rs 22.35 crore in FY23. The company's liquid investment in the form of mutual funds amounting to Rs 27.61 crore as on March 31, 2022 and free cash and bank balance to the tune of Rs. ~33 crore as on September 30, 2022. Further, the company has also invested in the quoted shares of its group companies viz. Nahar Capital and Financial Services Limited and Nahar Spinning Mills Limited having market value of investments of Rs 405 crore as on Dec 15, 2022. With gearing of 0.29x as on March 31, 2022, the company has sufficient gearing headroom, to raise any additional debt going forward. Its bank limits were utilized to the extent of ~27% for the trailing twelve months ending October, 2022 and current ratio of 2.44x as on March 31, 2022.

The operating cycle of the company stood at 49 days as on March 31, 2022 (PY: 34 days as on March 31, 2021) mainly on account of increase in the gross current days as the company commenced production from augmented capacity in Feb 2022 thereby leading to additional inventory requirement from Q4FY22. The company offers a credit period ranging from cash basis to ~1.5 months to its customers of BOPP films (including customized products), which has led to overall collection period of 15 days as on March 31, 2022 (PY: 12 days).

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. 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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	303.66	489.08	418.76
PBILDT	65.78	119.47	62.54
PAT	51.44	87.68	31.67
Overall gearing (times)	0.21	0.29	NA
Interest coverage (times)	194.27	40.59	12.38

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (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	156.45	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	12.00	CARE A1	-	1)CARE A2+ (07-Jan-22)	1)CARE A2+ (21-Dec-20)	1)CARE A2+ (CW with Developing Implications) (24-Oct-19)
2	Fund-based - LT-Working Capital Limits	LT	54.00	CARE A; Stable	-	1)CARE A-; Positive (07-Jan-22)	1)CARE A-; Stable (21-Dec-20)	1)CARE A- (CW with Developing Implications) (24-Oct-19)
3	Fund-based - LT-Term Loan	LT	156.45	CARE A; Stable	-	1)CARE A-; Positive (07-Jan-22)	1)CARE A-; Stable (21-Dec-20)	1)CARE A- (CW with Developing Implications) (24-Oct-19)

*Long term/Short term.

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

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

Annexure-5: Bank lender details for this company

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

Note on 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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