Nahar Poly Films Limited

March 12, 2018

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	72.36	**CARE A-; Stable (Single A minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	21.00	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**93.36 (Rupees Ninety Three crore and Thirty Six lakh 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 its experienced promoters, high financial flexibility being part of the Nahar Group, comfortable profitability margins, diversified product profile and reputed client base. The ratings further derive strength from the established brand name, efficient working capital management and comfortable overall solvency position. The ratings are, however constrained by the susceptibility of margins to raw material price fluctuations and product mix sold, foreign exchange fluctuation and highly competitive nature of the industry.

Going forward, the ability of the company to profitably scale-up its operations, maintain its overall solvency position and any significant debt funded capex shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with high financial flexibility being part of the Nahar Group: NPFL belongs to the Nahar Group which was established by late Mr. Vidya Sagar Oswal with 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 is the Chairman of the group and presently holds the chairman position on the board of directors of NPFL and other group companies and has more than 50 years of experience in the textile and woollen industry. Furthermore, Mr. J.L Oswal is assisted by his sons, Mr. Kamal Oswal and Mr. Dinesh Oswal, who have an industry experience of 24 years and 25 years, respectively. Moreover, the promoters of the company are supported by well qualified professionals with separate General Managers for each department. Furthermore, long operational history of the group and NPFL has enabled the company to establish strong relations with its customers and suppliers. Being a part of the Nahar group, the company enjoys ample financial flexibility with investments to the tune of Rs.101 cr., as on March 31, 2017, majorly in group companies.

Healthy financial risk profile: Even though the quantity sold increased (by ~4%) on a year-on-year basis, in FY17, the total operating income of the company remained flat during the year, mainly on account of lower sales realization per unit sold. The PBILDT margins declined, however still remained comfortable at 13.17% (PY: 17.74%) mainly due to competitive nature of industry. The overall solvency position of the company continues to remain comfortable and improved further with overall gearing and total debt to GCA ratios of 0.18x and 1.10x respectively, as on March 31, 2017 (0.29x and 1.25x respectively, as on March 31, 2016) on the back of scheduled repayment of term debt obligations coupled with accretion of profits to the net worth. In 9MFY18 (UA), the company has achieved total operating income of Rs.186.72 crore with PBILDT margin of 9.47% compared to an operating income of Rs. 190.95 crore and PBILDT margin of 14.75% in 9MFY17 (UA). The decline in PBILDT margin during the period was mainly on account of competitive nature of the industry. However, the PBILDT interest coverage remained comfortable and improved to 7.49x during the period (5.81x; in same period last year).

***Reputed client base and diversified product profile*:** NPFL supplies BOPP films to various reputed clients spread across India through established network of its own marketing personnel and dealers. NPFL's product profile is diversified as it manufactures BOPP films of varied grades and thickness which find applications in lamination, reverse printing, packaging, decoration, tapes and textile bags. Furthermore, to geographically diversify its revenue profile, NPFL also

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

exports its products, though low proportion, to various countries, which contributed ~2% of the company's revenue in FY17 (~2% in FY16).

Efficient working capital management coupled with a comfortable operating cycle: The average cash credit limit utilization of the company remained at a comfortable level of ~14% for the last 12 months period ended December 2017. The working capital cycle of NPFL remained at a comfortable level of 53 days as on March 31, 2017.

Key Rating Weaknesses

Susceptibility of margins to fluctuations in raw material prices, foreign exchange fluctuations and product-mix sold: The raw material cost constituted ~70% on an average (of the total income) for the last three years with prices of the key raw materials viz. BOPP resins and additives (polypropylene) fluctuating in nature and are dependent on crude oil prices which are highly volatile in nature. 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. The margins of the company are exposed to foreign exchange fluctuations, as during FY17, the company earned approximately 2% of its total income from exports while it imported around 6% of its raw material requirements. Though it provides natural hedge to a certain extent, the profitability margins of the company are exposed to any adverse fluctuation in the foreign exchange prices, in the absence of any hedging mechanism.

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 the low profitability due to highly fragmented industry, high raw material prices, low entry barriers, presence of large number of unorganized players with capacity additions by existing players as well as new entrants. This situation is likely to increase the level of competition which might put further pressure on profitability of packaging products manufacturers. However, this risk is mitigated to some extent as the company sells its products under the brand name of "Nahar" which is widely recognized in market.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings

Company Background

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 changed to NPFL. Later on, 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 68 year old Nahar Group which is diversified into various business such as textiles, retail, BOPP films, renewable power, real estate, sugar and financial services through its various companies including Oswal Woollen Mills Limited [rated 'CARE A1+'] and Vanaik Spinning Mills Ltd., Monte Carlo Fashions Ltd., Nahar Spinning Mills Ltd. (NSML), Nahar Industrial Enterprises Ltd., among others.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	263.67	259.06
PBILDT	46.78	34.11
PAT	11.65	9.97
Overall gearing (times)	0.29	0.18
Interest coverage (times)	5.81	7.49

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September-2018	30.36	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	21.00	CARE A2+
Fund-based - LT-Working Capital Limits	-	-	-	42.00	CARE A-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	30.36	CARE A-; Stable	1)CARE A-; Stable (17-Apr-17)	1)CARE A- (11-Apr-16)	-	-
2.	Non-fund-based - ST-BG/LC	ST	21.00	CARE A2+	1)CARE A2+ (17-Apr-17)	1)CARE A2+ (11-Apr-16)	-	-
3.	Fund-based - LT-Working Capital Limits	LT	42.00	CARE A-; Stable	1)CARE A-; Stable (17-Apr-17)	1)CARE A- (11-Apr-16)	-	-

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