Nahar Poly Films Limited

March 12, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Term Loan)	-	-	Withdrawn*
Long-term Bank Facilities (Fund Based)	42.00	**CARE A-; Stable (Single A minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	21.00	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**63.00 (Rupees Sixty Three crore only)**		

Details of instruments/facilities in Annexure-1

**CARE has withdrawn the rating assigned to the term loan facility of Nahar Poly Films Limited, with immediate effect since there is no amount outstanding under the facility*

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, 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 declining profitability margins, susceptibility of margins to raw material price fluctuations, product mix sold and foreign exchange fluctuations 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 impacting the credit profile 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 also 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. 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.123 cr., as on March 31, 2018, majorly in the group companies.

Comfortable overall solvency position: The capital structure of the company remained comfortable and improved further with debt-to-equity (D:E) and overall gearing ratios of 0.04x and 0.12x respectively, as on March 31, 2018 (0.11x and 0.13x respectively, as on March 31, 2017) on the back of scheduled repayment of term debt obligations. The debt coverage indicators also remained comfortable with total debt to GCA ratio of 1.34x, as on March 31, 2018 which deteriorated marginally from 1.16x as on March 31, 2017 due to lower profitability generated during the year. The interest coverage ratio, however, improved in FY18 due to decline in interest expenses incurred by the company on account of scheduled repayment of the term debt obligations. In 9MFY19 (UA), also the interest coverage remained comfortable and improved to 9.45x during the period (9.03x; in same period last year), on the back of lower interest expenses incurred.

***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.

Comfortable liquidity position: The average cash credit limit utilization of the company remained at a comfortable level of ~20% for the last 12 months period ended January 2019. The working capital cycle of NPFL also remained at a

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

comfortable level of 62 days as on March 31, 2018 (PY: 50 days). The company had a total debt repayment obligation of Rs.8.59 cr. in FY19, which was completely repaid in Q2FY19. As on March 31, 2018, NPFL also had free cash & investments (majorly in group companies) amounting to ~Rs.123.78 Cr. The current and quick ratios continued to remain comfortable at 2.03x and 1.50x, respectively, as on March 31, 2018 (Previous Year: 1.91x and 1.42x, respectively).

Key Rating Weaknesses

Declining profitability margins with susceptibility 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 also dependent on crude oil prices which are highly volatile in nature. The PBILDT margins of the company have declined in FY18 to 9.11% from 13.23% in FY17. This was mainly on account of higher raw material prices incurred which were not passed on to its customers due to competitive nature of industry. In 9MFY19 (Prov.), though the operating income increased by ~6% on a y-o-y basis to Rs.197.30 crore, the PBILDT margins declined to 4.22% compared to 9.47% achieved in the same period last year. The profitability margins are also vulnerable to changes in product mix sold 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 also exposed to foreign exchange fluctuations as the company earned approximately 2% of its total income from exports in the past while it imported around 5% 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 the 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
Policy on Withdrawal of ratings
Criteria for Short Term Instruments

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 69 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 and Vanaik Spinning Mills Ltd., Monte Carlo Fashions Ltd., Nahar Spinning Mills Ltd. (NSML), Nahar Industrial Enterprises Ltd., among others.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	257.45	254.69
PBILDT	34.06	23.19
PAT	10.05	5.10
Overall gearing (times)	0.13	0.12
Interest coverage (times)	7.54	8.85

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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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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	-	-	-	-	Withdrawn
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Stable (12-Mar-18) 2)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+ (12-Mar-18) 2)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 (12-Mar-18) 2)CARE A-; Stable (17-Apr-17)	1)CARE A- (11-Apr-16)	-

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CIN - L67190MH1993PLC071691