Nahar Poly Films Limited
April 17, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	72.36 (reduced from Rs. 89.79 crore)	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, 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 headed by Mr J. L. Oswal who presently holds the chairman position on the board of directors of NPFL and other group companies. He holds a bachelor's degree in commerce 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 Manager 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.99 crore, as on March 31, 2016, majorly in group companies.

Healthy financial risk profile: Though the total operating income of the company declined by ~14% in FY16 (refers to the period April 1 to March 31) to Rs.263.67 crore from Rs.305.48 crore in FY15, the profitability margins remained comfortable and improved with PBILDT and PAT margins of 17.74% and 4.42%, respectively (PY: 13.61% and 1.45%, respectively).

The capital structure of NPFL continued to remain comfortable and improved on a year-on-year basis with long-term debt-to-equity (D:E) and overall gearing ratios of 0.27x and 0.29x respectively, as on March 31, 2016 (PY: 0.41x and 0.62x, respectively). Furthermore, the debt coverage indicators of the company also remained at a comfortable level with PBILDT interest coverage ratio of 5.81x in FY16 (PY: 3.13x) and total debt to GCA ratio of 1.27x, as on March 31, 2016 (PY: 3.27x).

In 9MFY17 (UA), the company has achieved total operating income of Rs.188.33 crore with PBILDT margins of 13.55% compared to an operating income of Rs.197.88 crore and PBILDT margins of 16.58% in 9MFY16 (UA).

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 exports its products to various countries, which contributed ~2% of the company's revenue in FY16 (~13% in FY15).

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 2016. The working capital cycle of NPFL remained at a comfortable level of ~46 days as on March 31, 2016.

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 limited suppliers of these raw materials make it a sellers' market with limited bargaining power for buyers which led to high susceptibility of margins to their fluctuations. Furthermore, the margins are also vulnerable to changes in product mix of orders executed since BOPP films of non-tape/mattelize 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 FY16, the company earned approximately 2% of its total income (amounting to ~Rs.7 crore) from exports. The company also imported around 6% of its raw material requirements (amounting to ~Rs.10 crore), thus, providing natural hedge to a certain extent. However, since the complete exposure of the company is not hedged, it is 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. The organised sector of the industry may be less than 5% of the companies in the overall industry but it controls over 70% of the market by volume. 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.

Comment on Analytical Approach Followed – 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 66 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.[rated 'CARE A1+(SO)'], Monte Carlo Fashions Ltd., Nahar Spinning Mills Ltd. (NSML), Nahar Industrial Enterprises Ltd., among others.

During FY16 (refers to the period April 1 to March 31), NPFL has reported a PAT of Rs.11.65 crore on a total operating income of Rs.263.67 crore as against a PAT of Rs.4.44 crore on a total operating income of Rs.305.48 crore in FY15. In 9MFY17 (Unaudited), NPFL has achieved total operating income of Rs.188.33 crore with PBILDT margins of 13.55%.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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- (11-Apr-16)	-	-
2.	Non-fund-based - ST-BG/LC	ST	21.00	CARE A2+	-	1)CARE A2+ (11-Apr-16)	-	-
3.	Fund-based - LT-Working Capital Limits	LT	42.00	CARE A-; Stable	-	1)CARE A- (11-Apr-16)	-	-

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