Nahar Poly Films Limited

October 24, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	232.00 (increased from Rs. 42.00 cr.)	**CARE A- (Single A Minus) (Under Credit Watch with Developing Implications)**	Placed on Credit Watch with Developing Implications
Short-term Bank Facilities	21.00	**CARE A2+ (A Two Plus) (Under Credit Watch with Developing Implications)**	Placed on Credit Watch with Developing Implications
Total Facilities	**253.00 (Rupees Two hundred Fifty Three crore 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) have been placed on Credit Watch with Developing Implications following the announcement by the company of an expansion project to double its existing manufacturing capacities for biaxially-oriented polypropylene (BOPP) films. The same is proposed to be funded through a combination of term loans and promoters' contribution and is expected to come into commercial operations by July-2021. CARE will keep a close watch on the progress of project implementation and will take a view on the rating once the exact implication of the above on the credit risk profile of the company is clear.

The ratings 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.

These rating strengths are, however, partially offset by the exposure to project implementation risk, susceptibility of margins to raw material price fluctuations, product mix sold and foreign exchange fluctuations along with highly competitive nature of the industry.

Rating Sensitivities

Positive Factors

- Increase in scale of operations in FY2020
- Improvement in the PBILDT margins in FY2020 compared to the previous year
- Project achieving financial closure in a timely manner
- Successful commercial operations of the project within the proposed timelines and cost estimates
- Timely, need based, financial support from the promoters/ promoter group entities for the proposed project

Negative Factors

- Delay in financial closure for the proposed project
- Deterioration in capital structure with overall gearing ratio deteriorating beyond envisaged levels
- Any cost or time overrun in the proposed project
- Any new capex and funding mix for the same, impacting the credit profile

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

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

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 25 years and 26 years, 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 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 in group entities (~Rs. 71.72 Cr.) and cash and liquid investments to the tune of Rs.49.21 cr., as on September 30, 2019. The promoters/ promoters group is having 70.19% shareholding in NPFL, with NCFSL holding 49.16%, as on March 31, 2019. Further, NPFL is having 39.48% stake in NCFSL and 19.14% in NSML, as on March 31, 2019. In the past, it has been observed that the promoters and promoter group companies have extended need based financial support to other group companies. Also, in their interaction with CARE Ratings, the promoters and the management team have stated their intention to support the liquidity profile of NPFL going forward, if any need arises, during the implementation of the project. Hence, going forward, timely, need based, financial support from the promoters and promoter group, will remain a key rating sensitivity.

Comfortable overall solvency position as on March 31, 2019: The capital structure of the company remained comfortable and improved on a year-on-year (y-o-y) basis with nil term debt and negligible working capital borrowings outstanding as on March 31, 2019. The debt coverage indicators marked by total debt to GCA ratio and interest coverage ratio improved on a year-on-year basis to 0.05x, as on March 31, 2019 and 16.39x in FY19, respectively (PY: 1.34x and 8.85x, respectively). This was mainly on account of lower debt outstanding at the end of the year and lower interest expenses incurred by the company. In Q1FY20 (UA), the interest coverage remained comfortable and improved` to 378.67x during the period (8.26x; in same period last year), on the back of improved profitability and lower interest expenses incurred. However, the solvency position of the company is expected to deteriorate going forward (though remain at a satisfactory level) on account of the planned debt funded capex.

***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.

Key Rating Weaknesses
Project risks related to the expansion plan: The company is planning to enhance its existing capacities for manufacturing of BOPP films at a total project cost of Rs. 264.51 cr. during FY20-FY22 period. The project cost is proposed to be funded through a term loan of Rs. 190 cr. (Rs.110 cr. sanctioned while in-principle approval received for the remaining portion) and remaining through the promoters' contribution. The project is expected to achieve its COD (Commercial Operations Date) by July-2021. The project will be set-up in the existing manufacturing facilities of the company located in Raisen district of Madhya Pradesh. The promoter contribution (~Rs.74.51 Cr.) is proposed to be met through total cash & liquid investments of ~Rs.49.21 Cr. with the company (as on September 30, 2019; excluding investment in promoter group companies), and the cash accruals expected to be generated during the implementation of the project.
Though the project is in the same line of business, given the significant size of the project, it entails significant implementation and stabilization risks. Hence, the ability of the company to achieve the full financial closure in a timely manner, complete the proposed capex within the projected time and cost estimates and achieve the envisaged sales & profitability levels will remain a key rating sensitivity. Furthermore, any new capex and funding mix for the same, impacting the credit profile, will also remain a key rating sensitivity.

Susceptibility to fluctuations in raw material prices, foreign exchange fluctuations and product-mix sold: The raw material cost constituted ~74% on an average (of the total income) for the last three years with prices of the key raw materials viz. 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 FY19 to 5.70% from 9.11% in FY18. 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. However, in Q1FY20 (UA), though the operating income achieved by the company remained at almost the same level, compared to Q1FY19 (UA), the PBILDT margins improved substantially on a y-o-y basis to 15.90% (4.40% in Q1FY19) on account of improvement in the industry dynamics resulting in better demand and supply balance in the domestic market (since December, 2018) and leading to improvement in the sales realization on a y-o-y basis.
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 1% of its total income from exports in the past 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 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.

Liquidity: Strong- The current and quick ratios of NPFL stood at a comfortable level of 4.28 times and 2.67 times, as on March 31, 2019 (improved from 2.03 times and 1.50 times, respectively, as on March 31, 2018). The company had unencumbered cash & liquid investments of ~Rs.49.21 crore (excluding investments in group concerns) as on September 30, 2019 while the average working capital utilization of the company also remained at a comfortable level of ~4% during the last 12 months ending September-2019. The operating cycle of the company stood comfortable and improved to 53 days, as on March 31, 2019 (PY: 62 days) on account of lower average collection days. The company is undertaking capex for doubling its existing manufacturing capacities at a total project cost of Rs. 264.51 cr. proposed to be funded through term loans of Rs. 190 cr. and remaining through the promoters' contribution. With almost nil overall gearing as on March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its capex. The company has no debt repayment due in FY20 and FY21 period with repayment of new term loans projected to start from October-2021. The company also enjoys ample financial flexibility being a part of the Nahar group with timely need based financial support from the promoters and the promoter group, going forward, remaining a key rating sensitivity considering the size of the expansion project.

Analytical approach: Standalone. However, with common promoters, same brand name, and financial flexibility being a part of the Nahar group, support from the group has been considered.

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology- Factoring linkages in rating

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. 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.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	254.69	267.33
PBILDT	23.19	15.24
PAT	5.10	9.11
Overall gearing (times)	0.12	-
Interest coverage (times)	8.85	16.39

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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
Non-fund-based - ST-BG/LC	-	-	-	21.00	CARE A2+ (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	42.00	CARE A- (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	September, 2029	190.00	CARE A- (Under Credit watch with Developing Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (12-Mar-19)	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+ (Under Credit watch with Developing Implications)	-	1)CARE A2+ (12-Mar-19)	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- (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (12-Mar-19)	1)CARE A-; Stable (12-Mar-18) 2)CARE A-; Stable (17-Apr-17)	1)CARE A- (11-Apr-16)
4.	Fund-based - LT-Term Loan	LT	190.00	CARE A- (Under Credit watch with Developing Implications)	-	-	-	-

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

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 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.

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