Nahar Poly Films Limited

December 21, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	232.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Reaffirmed and Removed from Credit Watch with Developing Implications; Stable outlook assigned
Short-term Bank Facilities	15.00 (reduced from 21.00)	**CARE A2+ (A Two Plus)**	Reaffirmed and Removed from Credit Watch with Developing Implications
Total Facilities	**247.00 (Rupees Two hundred Forty Seven crore only)**		

Details of instruments/facilities in Annexure-1

Detailed description of the key rating drivers

CARE has reaffirmed the ratings assigned to the bank facilities of Nahar Poly Films Limited (NPFL) and removed it from 'Credit Watch with Developing Implications'. The ratings were earlier placed on Credit Watch following the announcement by the company of an expansion project to double its existing manufacturing capacities for biaxially-oriented polypropylene (BOPP) films. The project, with a total cost of Rs. 264.51 Cr., was proposed to be funded through a combination of term loans (Rs.190 Cr.) and promoters' contribution. Given the large size and initial stages of the project, with its financial closure pending, the progress of project implementation and the exact implication of the above on the credit risk profile of the company were to be monitored. The company had subsequently achieved the financial closure and as on November 23, 2020 it has incurred Rs.40.80 Cr. on the project. Additionally, it has issued letters of credit of ~Rs.130 Cr. for the machinery to be imported. It has also deployed more than 55% of the proposed promoter contribution for the capex. As on date, there is no time and cost overrun expected in the project. However, reckoning the size, CARE will continue to closely monitor the progress on the project.

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, improved profitability position 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.

Key Rating Sensitivities

Positive Factors

- Increase in scale of operations with continued healthy PBILDT margins of ~14-16%
- Successful commercial operations of the project within the proposed timelines and cost estimates

Negative Factors

- Any major deterioration in capital structure with overall gearing ratio deteriorating beyond envisaged levels
- Any major cost or time overrun in the ongoing project
- Any new capex and funding mix for the same, impacting the credit profile

Key Rating Strengths

Experienced promoters with high financial flexibility being part of the Nahar group: NPFL belongs to the reputed 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 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 2.5 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.

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

Being a part of the Nahar group, the company enjoys ample financial flexibility with investments in group entities (~Rs. 115 Cr.) and cash and liquid investments to the tune of ~Rs.11 Cr., as on September 30, 2020. The promoters/ promoter group entities hold 70.19% shareholding in NPFL, with NCFSL holding 49.16%, as on March 31, 2020. Further, NPFL held 39.48% stake in NCFSL and 19.14% in NSML, as on March 31, 2020. 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: The company had nil debt outstanding, as on March 31, 2019. The company witnessed a slight increase in the outstanding working capital borrowings while a small portion of the loan pertaining to the capex was also disbursed in March-2020. The overall gearing ratio of the company, however, remained at a comfortable level as on March 31, 2020. The total debt to GCA ratio also stood comfortable at 0.10x, as on March 31, 2020 (PY: 0.05x). The interest coverage ratio of the company also remained comfortable in FY20 improving from FY19 due to improved profitability and lower interest expenses incurred by the company. The interest coverage ratio stood comfortable even in H1FY21 (UA) at ~252x [~688x in H1FY20 (UA)] while the overall gearing ratio also stood at 0.01x, as on September 30, 2020 (same as September 30, 2019). However, a moderation is expected in these solvency indicators of the company going forward (though still expected to remain at a satisfactory level) on account of the planned debt funded capex.

Improved profitability: The company derived a higher proportion of income from higher value addition products like metalised films, thin films etc. in FY20 which entail better realisations as well as profit margins. The PBILDT margins of the company therefore improved significantly to 16.39% from 5.70% in FY19. This was also on account of improvement in the industry dynamics resulting in better demand and supply balance in the domestic market and improvement in the sales realization on a year-on-year basis. Consequently, and supported by lower interest expenses, the PAT margins also improved significantly to 11.70% in FY20 from 3.41% in FY19.
In H1FY21 (UA), the total income of the company declined marginally by ~2% as compared to H1FY20 (UA) owing to the closure of manufacturing facilities and subsequent disruptions arising from the imposition of lockdown in the light of Covid-19. However, on the raw material side, the prices have remained lower owing to weaker crude oil prices. Also, the proportion of higher value addition films increased during H1FY21 (UA) which are better margin yielding products. All this has led to a significant improvement in the PBILDT and PAT margins from 14.95% and 10.56% respectively, in H1FY20 (UA) to 22.44% and 16% respectively, in H1FY21 (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.

Key Rating Weaknesses
Project risk related to the ongoing expansion capex: The company is undertaking a capex to enhance its existing capacities for manufacturing of BOPP films at a total project cost of Rs. 264.51 Cr. during the FY20-FY22 period. The project cost is proposed to be funded through term loans of Rs. 190 Cr. (tied up) and remaining through the promoters' contribution. The project is expected to achieve its COD (Commercial Operations Date) by July-2021. The promoter contribution (Rs.74.51 Cr.) is proposed to be met through total cash & liquid investments and the cash accruals expected to be generated during the implementation of the project. The company has incurred a total expenditure of Rs.40.80 Cr., till November 23, 2020 from its own sources (Rs.37.36 Cr.) and term loans from bank amounting to Rs.3.44 Cr. Further, the company has issued letters of credit amounting to ~Rs.130 crore, as on November 23, 2020 for some additional capital items to be imported. 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 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 ~72% on an average (of the total income) for the last three years with prices of the key raw materials viz. resins and additives (polypropylene) remain fluctuating in nature and also dependent on crude oil prices which themselves are highly volatile in nature. 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. The company, in FY20, earned approximately 6% of its total income from exports in the past while it imported around 9% of its raw material requirements.

Though this provides a natural hedge to a certain extent, the profitability margins of the company are exposed to any adverse fluctuations 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 low profitability due to highly fragmented industry, low entry barriers, presence of large number of unorganized players and regular capacity additions by the companies. 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.

Liquidity: Strong

The current and quick ratios of NPFL stood at a comfortable level of 5.51 and 4.03 times, respectively, as on March 31, 2020 improving from 4.28 times and 2.67 times, as on March 31, 2019. The company had unencumbered cash & liquid investments of ~Rs.11 crore (excluding investments in group concerns) as on September 30, 2020 while the average working capital utilization of the company also remained at a comfortable level of ~5% during the last 12 months ending October-2020. The operating cycle of the company also improved to ~40 days, as on March 31, 2020 from ~52 days, as on March 31, 2019 mainly on account of improvement in 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 (~55% of which has already been deployed, as on November 23, 2020). With an overall gearing ratio of 0.02x as on March 31, 2020, NPFL has sufficient gearing headroom, to raise additional debt for its capex. The company has no debt repayment due in FY21, with repayment of new term loans projected to start from Q3FY22. 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
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Liquidity analysis of non-financial sector entities
Rating Methodology: Notching by factoring linkages in Ratings

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 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.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	267.33	281.15
PBILDT	15.24	46.07
PAT	9.11	32.90
Overall gearing (times)	-	0.02
Interest coverage (times)	16.39	162.10

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	-	-	-	15.00	CARE A2+
Fund-based - LT-Working Capital Limits	-	-	-	42.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	September-2029	190.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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)
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+	-	1)CARE A2+ (Under Credit watch with Developing Implications) (24-Oct-19)	1)CARE A2+ (12-Mar-19)	1)CARE A2+ (12-Mar-18) 2)CARE A2+ (17-Apr-17)
3.	Fund-based - LT-Working Capital Limits	LT	42.00	CARE A-; Stable	-	1)CARE A- (Under Credit watch with Developing Implications) (24-Oct-19)	1)CARE A-; Stable (12-Mar-19)	1)CARE A-; Stable (12-Mar-18) 2)CARE A-; Stable (17-Apr-17)
4.	Fund-based - LT-Term Loan	LT	190.00	CARE A-; Stable	-	1)CARE A- (Under Credit watch with Developing Implications) (24-Oct-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the 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

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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