September 27, 2022

N R Agarwal Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund Based Cash Credit	127.12	127.12	[ICRA]A(Stable); reaffirmed
Long-Term – Fund Based Term Loan	529.80	529.80	[ICRA]A(Stable); reaffirmed
Short-Term – Non-Fund Based	118.08	118.08	[ICRA]A1; reaffirmed
Total	**775.00**	**775.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of N R Agarwal Industries Limited (NRAIL) remains supported by the established track record of its promoters (more than 30 years in the paper industry), its large scale of operations, and its strong presence in western India. The ratings also factor in the healthy demand recovery for writing and printing paper (PWP) led by the re-opening of schools, colleges and other related end-consumer segments after Covid-led disruptions. Demand for the board segment continues to be healthy and is supported by steady rise in realisations. Driven by recovery in demand for PWP and stable demand for duplex board, the company posted a top-line growth of 41% in FY2022 (albeit on a lower base). ICRA notes that its profitability levels and coverage indicators remain comfortable. ICRA expects the company's performance to remain supported by stable demand, its strong distribution network and improving capacity utilisation levels.

The ratings, however, remain constrained by the vulnerability of NRAIL's profitability to fluctuations in waste paper prices and foreign exchange (forex) rates. While the operating margins were low at 8.9% in FY2022 owing to high input prices, the company took price hikes in Q1 FY2023 resulting in improved margins of 12.0%, partly supported by a moderation in input prices to an extent. Around 56% of the company's raw material requirements are met through imports. While NRAIL derives around a fifth of its revenues through exports, which provides a natural hedge to an extent, it remains exposed to sharp volatility in forex rates in the absence of any firm hedging mechanism. ICRA notes that the company is incurring a sizeable debt-funded capex over FY2023-FY2024 towards capacity enhancement of duplex paper board. Though the project is spread over the next two fiscals and the repayment is likely to start after the moratorium period, the ability of the company to timely execute the project without any material impact on its capital structure and coverage indictors will remain key rating factors, going forward. ICRA also notes that the promoter has pledged its entire holding for availing the term loans from the bank for new capex plans, which limits NRAIL's financial flexibility on an aggregate basis. ICRA, however, takes comfort from the inflow of ~Rs. 92 crore in the current fiscal on account of the sale of its Unit II, which in turn has created a notable buffer in fund-based limits and has also been used pre-paying certain existing loans, supporting the liquidity profile of the company.

The Stable outlook reflects ICRA's expectations that NRAIL will benefit from the extensive experience of its promoters, its large scale of operations and growing demand for its key product portfolio of duplex boards, wherein it is carrying out its ongoing capex.

Key rating drivers and their description

Credit strengths

Established track record in the paper industry – NRAIL has been manufacturing paper products since 1993 and has developed an established presence and distribution network in the market over the past three decades. Its operations are managed by Mr. RN Agarwal, the Chairman and Managing Director, who has an extensive experience of more than three decades in the paper industry.

Financial profile characterised by healthy coverage indicators and comfortable leveraging – In FY2022, the increase in prices of waste paper, logistics and energy impacted the company's operating margins of 8.9% (over 11.6% in FY2021). However, NRAIL took significant price hikes in Q1 FY2023, which resulted in healthy operating margins of 12.0% over 9.6% in Q4 FY2022. The net worth base remained healthy, which coupled with the moderate debt levels resulted in a comfortable capital structure, as reflected by a gearing of 0.3 time as on March 31, 2022 (0.4 time as on March 31, 2021). The coverage indicators too remained healthy, as reflected by net cash accruals/total debt of 77% (58% in FY2021) and leveraging (total debt/OPBDITA) of 1.0 time (1.3 times in FY2021) in FY2022.

Healthy capacity utilisation levels – NRAIL has five manufacturing units at Vapi and Sarigam, Gujarat, with a total production capacity of 3,54,000 MTPA. However, the company had sold one of its writing and printing units (Unit II) at Vapi to Shree Ajit Pulp and Paper Limited and the proceeds were utilised for business operations and prepayment of some part of its existing term loans. NRAIL, at present, has a total production capacity of 288,000 MTPA after the sale of Unit II. With recovery in economic activities following the pandemic, the capacity utilisation levels improved to 96% in FY2022 from 81% in FY2021. The utilisation levels were also limited as Unit II was operational for part of the year (April–August 2021). Going forward, with favourable demand for its products, the utilisation levels are expected to remain healthy as reflected by capacity utilisation of more than 100% in Q1 FY2023 for duplex boards.

Established network of agents across western India – NRAIL operates through an established network of agents and dealers with focus on sales in western India. These agents have tie-ups with printing and designing companies who make boxes as per the specifications of various end-user industries such as pharmaceuticals and FMCG. NRAIL's customer base remains moderately diversified with its top 10 customers generating 35% and 28% of its total revenues in FY2021 and FY2022, respectively.

Demand dynamics remain favourable amid healthy demand for boards from end-user sectors – The demand for duplex boards has been growing in recent times with growth in e-commerce as well as the focus of FMCG players on the premiumisation of their packaging. The company's board segment has witnessed growth at 18% CAGR over the last four years (ending FY2022). The impact on top line during FY2021 due to covid was also marginal. Moreover, since the company is in the midst of capex plans in the same segment for growing its manufacturing capacity by 1.8 times, this augurs well for the company in terms of the demand scenario.

Credit challenges

Commensurate returns from the planned debt-funded capex remain critical for the credit profile – NRAIL is planning to set up a new manufacturing unit at an estimated cost of Rs. 650.0 crore over FY2022-FY2024 towards capacity enhancement of its duplex paper boards. Through the capacity expansion, NRAIL intends to raise its production capacity by ~1,50,000 MTPA in the segment, which will enable it to cater to the growing domestic demand and increase its market share in the paper industry. Given the sizeable capex in relation to the gross block, NRAIL is exposed to project execution risk. Further, the company's ability to complete the project within the stipulated timeline without any cost overruns or material impacts on its capital structure and coverage indictors will remain key rating factors, going forward. The project cost is proposed to be funded through a term loan of Rs. 425.0-crore and the remaining through internal accruals. With the onboarding of the debt, NRAIL's debt-coverage metrics are likely to moderate over FY2023-FY2024. The ability of the company to generate commensurate returns from the new capex, which strengthens the overall financial profile, will remain a key monitorable from a rating perspective.

Profitability remains exposed to volatility in key input raw material viz. waste paper and coal prices– The main raw material used in the manufacturing process is waste paper, which accounts for 75-80% of NRAIL's total raw material costs. The prices of waste-paper vary with changes in waste paper related regulations as well as the overall availability scenario. The other key input for the entity is coal, which is largely imported. Both raw materials have reported unprecedented price rise in the last one year, which has also impacted the margins in FY2022 in the absence of NRAIL's ability to fully pass on the same to the endcustomer. Hence, its ability to protect its margin through price hikes in case of any rise in input prices, will remain a key rating sensitivity.

Profitability exposed to forex rate movements in the absence of any hedging policy – NRAIL sources waste paper from both domestic and international markets. Imports are primarily made from North America, West Asia and Europe through various indenting agents and account for ~56% of total raw material requirements. Thus, NRAIL's margins remain vulnerable to any adverse fluctuations in forex rates, in the absence of any hedging mechanism. Also, the company remains exposed to imported coal price fluctuations. However, it derives nearly 20-25% of its revenues through exports, which provides a natural hedge to an extent.

Liquidity position: Adequate

The liquidity position of the company is adequate with healthy cash accruals and low working capital requirements. NRAIL had external term loans of Rs. 70.3 crore on its books as on March 31, 2022, of which Rs. 36.4 crore will be repaid by FY2023, which is expected to be comfortably covered by cash accruals. The average working capital utilisation stood at 42% for its fund-based limits in the last 12-month period ending August 2022, providing sufficient cushion to its liquidity position. The liquidity position is also supported by nil repayment obligations in FY2024, as the repayment for NRAIL's new debt will start from FY2025, following the one-year moratorium period.

Rating sensitivities

Positive factors – The ratings may be upgraded in case the company registers a sustained growth in revenues along with stabilisation of the new unit on a timely basis, resulting in an improved financial risk profile.

Negative factors – The ratings may be downgraded if there is a significant decline in revenues and profitability due to lower off-take from customers or a sharp decline in realisation. Pressure on the ratings could also emerge in case of any material delay in commissioning the new unit, leading to cost overruns that may impact the liquidity profile and debt metrics. Specific credit metrics, which can trigger a negative rating, will be an interest coverage of less than 4.00 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Rating is based on standalone financial statements

About the company

Incorporated in 1993, N R Agarwal Industries Limited manufactures various duplex paper boards, writing and printing paper as well as newsprint. However, the company discontinued its newsprint business in FY2020. NRAIL has five manufacturing facilities at Vapi and Sarigam, Gujarat. It is listed on NSE and BSE. All the utilities are in place for its manufacturing plants and most of its energy requirement is met through captive power generation, while the rest is purchased from the Gujarat Electricity Board (GEB).

Key financial indicators (audited)

	FY2021	FY2022
Operating income	1,145.6	1,616.5
PAT	57.2	61.0
OPBDIT/OI	11.6%	8.9%
PAT/OI	5.0%	3.8%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	1.3	1.0
Interest coverage (times)	4.4	5.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022				Date & rating in FY2021		Date & rating in FY2020
					September 27, 2022	February 23, 2022	January 20, 2022	October 26, 2021	July 21, 2021	January 05, 2021	December 22, 2020	-
1	Cash Credit	Long-Term	127.12	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
2	Term Loan	Long-Term	529.80	70.3	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
3	Non-Fund Based	Short-Term	118.08	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
4	Issuer rating	Long-Term	0.00	-	-	-	[ICRA]A (Stable); withdrawn	-	-	-	[ICRA]A (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term - Fund Based Cash Credit	Simple
Long-Term – Fund Based Term Loan	Simple
Short-Term – Non-Fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	127.12	[ICRA]A(Stable)
NA	**Term Loan-I**	FY2010	NA	FY2024	12.49	[ICRA]A(Stable)
NA	**Term Loan-II**	FY2022	NA	FY2032	200.00	[ICRA]A(Stable)
NA	**Term Loan-III**	FY2022	NA	FY2032	226.80	[ICRA]A(Stable)
NA	**Term Loan-IV (Proposed)**	NA	NA	NA	90.51	[ICRA]A(Stable)
NA	**Non-fund Based**	NA	NA	NA	118.08	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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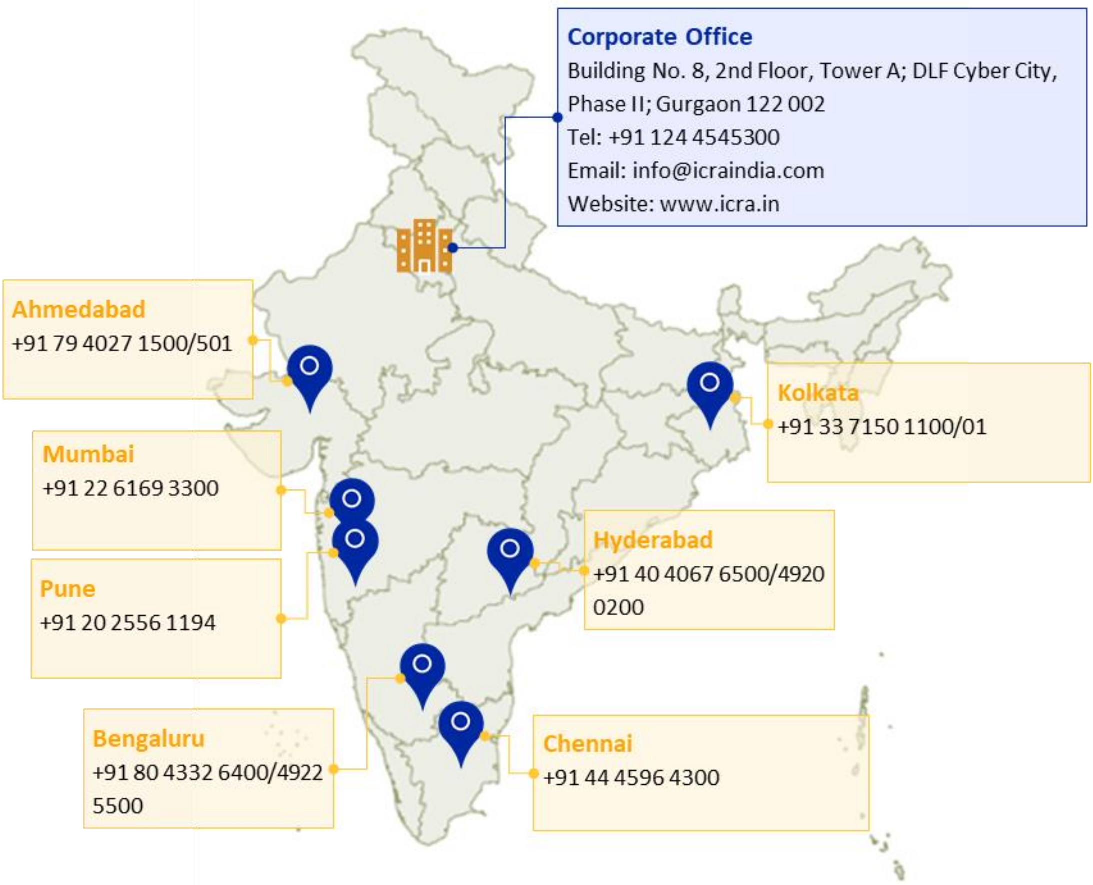

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