July 29, 2024

Nahar Capital and Financial Services Ltd: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	25.00	25.00	[ICRA]A1+; reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in Nahar Capital and Financial Services Ltd's (NCFSL) good capitalisation and strong liquidity profile with a net worth of Rs. 888 crore, negligible borrowings, a capital adequacy ratio of 96.33%, and liquid investments of approximately Rs. 357 crore as of March 31, 2024. The rating continues to draw comfort from NCFSL being a part of Nahar Group, which is one of the largest and oldest textile groups in the country with an established track record of over six decades and a healthy credit profile.

ICRA notes that NCFSL's earnings profile is exposed to the inherent volatility associated with capital markets, given the nature of its business. However, the risk is somewhat mitigated as the company's investments are well-diversified among various capital market instruments like mutual funds (both debt and equity), debentures and equity shares. ICRA also notes that 34% of NCFSL's total assets, as on March 31, 2024, were invested in various Nahar Group companies (total investment of Rs. 283 crore), whereby it receives dividend income. Thus, the performance of these underlying companies in equity markets would have a bearing on NCFSL's earnings and hence credit profile. The company also lends to Group entities from time to time to support their operations, though the overall quantum of such transactions has remained low. NCFSL's ability to identify profitable investment opportunities in the capital market segment, diversify its revenue stream and scale up its operations in a prudent manner, while maintaining adequate risk management systems and profitability, will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Good capitalisation and healthy liquidity profile – NCFSL's balance sheet is primarily funded by equity with limited dependence on debt over the years. As on March 31, 2024, the capitalisation level was comfortable with a net worth of Rs. 888 crore and negligible borrowings. Going forward as well, the gearing levels are expected to remain low. NCFSL's liquidity profile was healthy, as of March 31, 2024, with sizeable liquid investments of ~Rs. 357 crore compared to nil borrowings.

Financial flexibility by virtue of being a part of Nahar Group – NCFSL is a part of the Ludhiana-based Nahar Group, which is one of the largest and oldest textile groups in the country with an established track record of over six decades and vertically integrated operations from spinning to garmenting and retailing. Other companies in the Group include Monte Carlo Fashions Limited, Oswal Woollen Mills Ltd (rated [ICRA]A (Stable)/[ICRA]A2+), Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited, and Nahar Poly Films Limited. The shared brand name supports NCFSL's financial flexibility.

ICRA notes that 34% of NCFSL's assets, as on March 31, 2024, were invested in various Nahar Group companies (total investment of Rs. 283 crore), whereby it receives dividend income. Thus, the performance of these underlying companies would have a bearing on NCFSL's credit profile. The company also lends to Group entities from time to time to support their operations, though the overall quantum of such transactions has remained low.

Moreover, its exposure to Group companies would be subject to the requirements of these companies and the commercial viability of the same for NCFSL. While the proportion of such transactions has been low, a significant increase in the same would be a credit negative for the company.

Credit challenges

Low diversification in business revenues and exposure to market risk – NCFSL's revenue profile remains concentrated towards the income generated from the capital market segments in the form of income from the sale of investments (52% of total income in FY2024), interest and rental income (29%) and dividend income (19%). This makes its income profile vulnerable to cyclical downturns in the capital market segment. Nevertheless, ICRA notes that the company holds a well-diversified investment portfolio with instruments like mutual funds, debentures, preference and equity shares, real estate alternative investment funds (AIFs), private equity funds, global equity funds, gold/commodity funds, etc, which is expected to limit its losses in a depressed market scenario.

Modest profitability indicators – The company's profitability remained modest with an increase in the return on average assets (RoA) to 4.5% in FY2024 from 3.3% in FY2023. This was due to the ~40% rise in overall income to Rs. 56 crore in FY2024 from Rs. 40 crore in FY2023, given the higher gain on investment and increase in interest & rental income. Going forward, the company's earnings profile will remain exposed to the inherent volatility associated with capital markets, given the nature of its business. Its ability to sustain its earnings would be critical for maintaining its credit profile.

Environment and social risks

Although NCFSL does not face material physical climate risks, it is exposed to environmental risks indirectly through its portfolio of investments. If the group entities or separate businesses, to which the investment funds have significant exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into market risk for the investment institution. Further, the business activities are typically short-to-medium term in nature, allowing the company to adapt and take incremental exposure on businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. NCFSL has not faced such lapses over the years and its disclosures outline the key policies, processes and investments made by it to mitigate the occurrence of such instances. Moreover, it has been at the forefront of making the requisite investments to enhance its digital interface with its customers.

Liquidity position: Strong

The company's liquidity profile was strong, as on March 31, 2024, with an unencumbered cash and bank balance of Rs. 0.84 crore, sizeable surplus liquid investments of ~Rs. 357 crore with sanctioned overdraft limits of Rs. 48 crore and nil debt repayments.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded if there is a significant deterioration in the company's liquidity profile. The rating could also be under pressure if there is a significant deterioration in the financial profile of Nahar Group, which may lead to reduced financial flexibility for NCFSL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[ICRA's Credit Rating Methodology for Non-banking Finance Companies](#)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in March 2006, Nahar Capital and Financial Services Ltd (NCFSL) took over the investment business of a Group company – Nahar Spinning Mills Limited. It is primarily an investment company with strategic investments in Nahar Group (~34% of the investments as on March 31, 2024), investments in mutual funds (~14%), listed equity shares (21%), bonds and AIFs (~13%), preference shares (~11%), and minor investments in properties under development and real estate funds.

NCFSL is a part of the Ludhiana-based Nahar Group, one of the largest and oldest textile groups in the country with vertically integrated operations from spinning to garmenting and retailing. The other major companies in the Group include Monte Carlo Fashions Limited, Oswal Woolen Mills Ltd, Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited and Nahar Poly Films Limited.

NCFSL reported a profit after tax (PAT) of Rs. 38 crore in FY2024 on an asset base of Rs. 907 crore as on March 31, 2024 against a PAT of Rs. 28 crore in FY2023 on an asset base of Rs. 860 crore as on March 31, 2023.

NCFSL is a public limited company with its shares listed on NSE and BSE. As on March 31, 2024, its promoters held 71.54% of the total equity with public and financial institutions holding the rest.

Key financial indicators

Nahar Capital and Financial Services Ltd	FY2021	FY2022	FY2023	FY2024
	Audited	Audited	Audited	Audited
Total income	48	50	40	56
Profit after tax	30	30	28	38
Total managed assets	731	818	860	907
Return on managed assets	4.3%	3.9%	3.3%	4.5%
Return on net worth	4.4%	4.0%	3.4%	4.4%
Managed gearing (times)	0.01	0.00	0.00	0.00
CRAR	97.2%	97.6%	97.6%	96.3%

Source: ICRA Research, NCFSL; All figures and ratios as per ICRA's calculations
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Jul 29, 2024	Jul 25, 2023	Jul 18, 2022	Jul 22, 2021
1	Commercial paper programme	ST	25	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	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 as on March 31, 2024

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Commercial paper programme***	NA	NA	7-365 days	25.00	[ICRA]A1+

*Source: NCFSL; *Yet to be placed*

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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 45964308
a.karthik@icraindia.com

Manushree Saggar
+91 124 4545316
manushrees@icraindia.com

Mishi Yadav
+91 124 4545320
mishi.yadav@icraindia.com

Atharva Pednekar
+91 22 61143400
atharva.pednekar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 2261143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

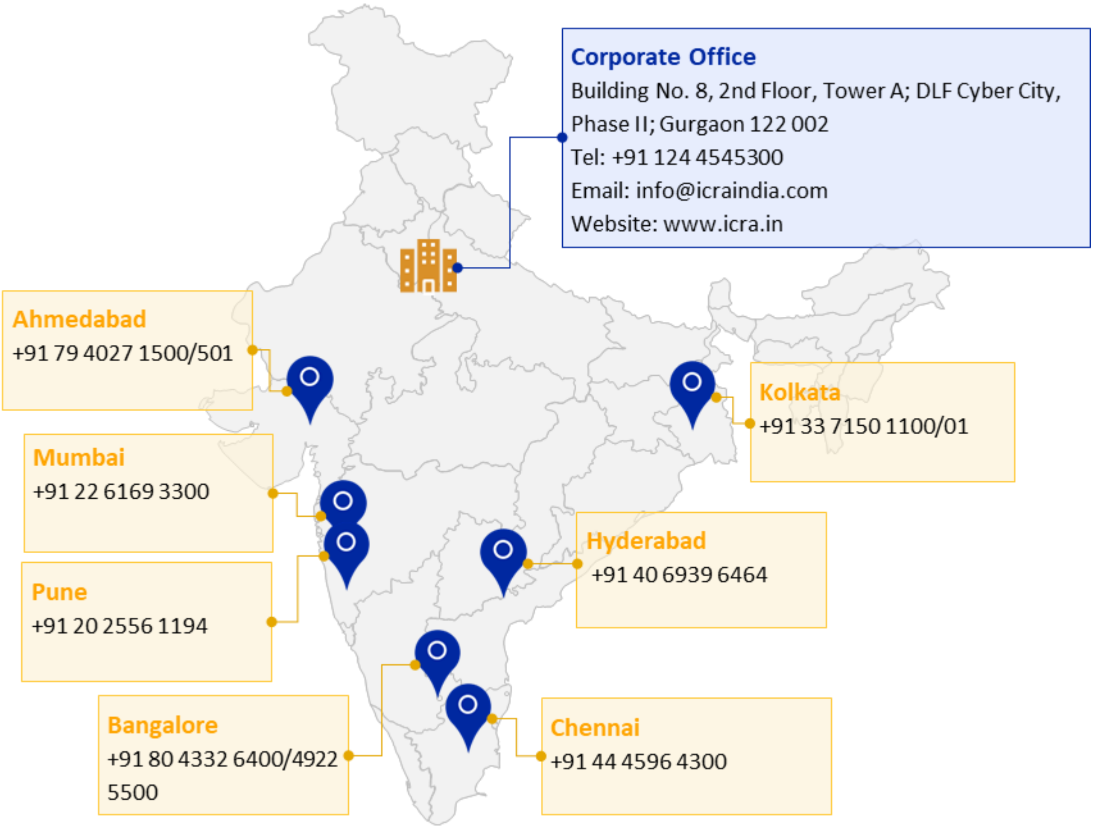
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.