January 3, 2025

N R Agarwal Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based – Cash credit	204.10	288.00	[ICRA]A (Stable); reaffirmed and assigned for enhanced limits
Long-term fund based – Term loan	501.80	590.64	[ICRA]A (Stable); reaffirmed and assigned for enhanced limits
Short term non-fund based	69.10	77.00	[ICRA]A1; reaffirmed and assigned for enhanced limits
Total	**775.00**	**955.64**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of N R Agarwal Industries Limited (NRAIL) factors in 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 its established distribution network, healthy capacity utilisation levels of ~100% in FY2024 and favourable long-term demand outlook for paper in the domestic market because of its low per-capita usage compared to global standards. NRAIL commenced the operations of its new plant from March 2024. Despite continued pressure on realisation levels in FY2025, the company is expected to witness revenue growth of 20-25% in FY2025 over FY2024, primarily driven by healthy sales in the export market, higher volume sales due to commencement of new plant from April 2024 and lower base. The company witnessed improvement in operating profit margins to 14.6% in FY2024 from 10.5% in FY2023 owing to decline in raw material prices compared to sales realisation prices. However, the operating margins remained low at 7.1% in H1 FY2025 due to higher expenses during the stabilisation phase for the new plant and low net sales realisation levels amid pressure from cheap imports. The operating profit margins are expected to improve and remain range-bound of 7-10% in FY2025 with benefits arising from the economies of scale, stablilisation of the new plant and premium products sold from the new plant. ICRA expects NRAIL's revenue and earnings performance to be supported by stable demand, its strong distribution network and healthy capacity utilisation levels.

The ratings, however, remain constrained by the vulnerability of revenues and margins to net sales realisation of paper, which has been volatile recently, susceptibility of margins to wastepaper prices and foreign exchange (forex) rates. In FY2024, around 62% of the company's raw material requirements were met through imports. While NRAIL derived around 11% of its revenues in FY2024 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 has recently completed a sizeable debt-funded capital expenditure (capex) towards capacity enhancement of duplex paper board. The debt protection metrics have moderated in FY2024 over FY2023, hence NRAIL's ability to successfully ramp-up its new facility remains critical for debt protection metrics. Moreover, the company plans to incur debt-funded capex of ~Rs. 150 crore in FY2025 towards infrastructure development to increase manufacturing capacity. In addition to this, with higher working capital requirements for the new plant, the capital structure and coverage indicators are expected to remain under check and will be key rating monitorable factors. Nonetheless, ICRA draws comfort the current adequate liquidity position of the company, supported by cash and bank deposits and other investments (equity and mutual funds) and modest annual repayments over the next two years. 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. The company expects the same to be released over the short-term.

The Stable outlook reflects ICRA's expectations that NRAIL's operating profit margins will gradually improve over the medium term as the company ramps up the capacity of its new plant. This, coupled with limited capex plans from FY2026, should support the debt coverage indicators and liquidity position of the company.

Key rating drivers and their description

Credit strengths

Established track record in the paper industry; good distribution network – NRAIL has been manufacturing paper products since 1993 and has developed an established presence and distribution network over the past three decades. Its operations are managed by Mr. R.N. Agarwal, Chairman and Managing Director, who has an extensive experience of more than three decades in the paper industry. NRAIL operates through an established network of agents and dealers with focus on sales in western India. The 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 ~37% of its revenues in FY2024.

Healthy capacity utilisation levels – NRAIL has three operational manufacturing units at Vapi and Sarigam, Gujarat, with a total production capacity of 4,40,000 MTPA as on September 30, 2024. The company has commenced its new duplex board plant with capacity of 2,40,000 MTPA in March 2024. However, the company has recently shut its duplex board unit IV from July 1, 2024, as the products manufactured were of low-margin grams per square meter (GSM) products. With healthy demand for PWP and board products and lower available capacity in FY2024 compared to FY2023, its capacity utilisation levels remained high at around 100%. NRAIL has set up a new manufacturing unit with capacity of 2,40,000 MTPA, which commenced from March 2024 for its duplex paper boards and intends to further invest in infrastructure to increase the capacity to 900 TPD by April 2024 from current 725 TPD. Through the capacity expansion, NRAIL intends to cater to the growing domestic demand and increase its market share in the paper industry. Although the capacity utilisation of the new plant remained low at 41% in H1 FY2025 due to stabilisation phase, the same is expected to gradually ramp up and will remain a key monitorable.

Demand dynamics remain favourable amid healthy demand for boards from end-user sectors – Long-term demand outlook for paper in the domestic market remains favourable because of its low per-capita usage, compared to global standards and increasing usage of packaging products. Growing demand for packaging from the e-commerce, food and food products, FMCG, textiles and pharmaceutical sectors augurs well for the company. However, rising digitisation remains a threat for the growth of the PWP segment on a longer term basis. Moreover, as the company has recently increased its board segment capacity by almost two times, thus leading to healthy demand and market share scenario.

Credit challenges

Moderation in financial profile in FY2025 - The coverage indicators for NRAIL are expected to moderate in FY2025 amid weakened OPM, absence of capitalisation of interest and commencement of debt repayments. The company's operating margins witnessed significant declined to 7.1% in H1 FY2025 compared to 14.6% in FY2024 due to higher expenses during the stabilisation phase for the new plant and low net sales realisation levels amid pressure from cheap imports. However, the company is expected to report operating margins of 7-10% in FY2025 with benefits arising from the economies of scale, stablilisation of the new plant and premium products sold from the new plant. The company is also exposed to vulnerability of revenues and margins to net sales realisations of paper, which has been volatile in recent times, pressuring the coverage metrics. However, the realisation levels are expected to improve from Q4 FY2025, which should support the operating margins in FY2026 and remains a key monitorable. This, coupled with limited capex plans from FY2026, should support the debt coverage indicators and liquidity position of the company.

Profitability remains exposed to volatility in key input raw material - The main raw material used in NRAIL's manufacturing process is wastepaper, which accounts for 75-80% of its total raw material costs. The prices of wastepaper vary with changes in related regulations as well as the overall availability. The other key input for the entity is coal, which is largely imported. Although the higher decrease in raw material prices in FY2024 compared to the realisation levels have supported the operating margins in FY2024, 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 wastepaper from both the domestic and international markets. Imports are primarily made from North America, West Asia and Europe through various indenting agents and account for ~62% of its 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 10-20% of its revenues through exports, which provides a natural hedge to an extent.

Environmental and Social Risks

Environmental considerations: The paper manufacturing industry is exposed to environmental risks of air, water and land pollution, with discarded paper and paperboard making up a sizeable portion of solid municipal waste in landfills. Manufacturing paper out of wastepaper requires a lot of resources such as water and power, creating a lot of wastewater and solid waste in the process. As a result, environment management is highly critical to continue sustainable business operations for the company. While these risks have not resulted in any material implication so far, any breaches in waste management or higher-than-permissible emissions could have cost implications for the company. N R Agarwal uses wastepaper as a primary raw material which effectively reduces the demand for wood, a natural resource that plays a pivotal role in maintaining ecological balance. Also, water treatment is extremely important because the pulping and bleaching process can release complex organic and inorganic pollutants which need to be properly treated. The company's environment management philosophy aims to cater to the necessary guidelines and requirements of the Central and State Pollution Control Boards and fulfil the government norms related to air, water and solid waste management.

Social considerations: Being a labour-intensive segment, entities operating in the paper industry are exposed to the risk of disruption from their inability to properly manage human capital in terms of their safety and overall well-being. Further, any significant wage rates adversely impacting the cost structure of paper manufacturing companies can impact their margin. NRAIL is also exposed to the shortage of a skilled workforce as well as to hazardous chemicals, which can impact operations. NRAIL invests in training and knowledge at all levels to align employees with requirements on safety, customer support, market needs, operational excellence, technology upgradation, process improvements, innovation and behavioral competencies.

Liquidity position: Adequate

The liquidity position of the company is adequate, supported by healthy available cash and bank deposits and investments of ~Rs. 104 crore and headroom in working capital limits. The average working capital utilisation stood at 54% for its fund-based limits (drawing power) in the last 12-month period ending October 2024 with buffer of Rs. 67 crore as on October 31, 2024, providing sufficient cushion to its liquidity position. The company has capex plans of ~Rs. 150 crore in FY2025, which is expected to be funded by mix of additional term loans (Rs. 75 crore) which is yet to be sanctioned, undrawn term loan and internal accruals. The company has repayment obligation of Rs. 33.8 crore in FY2025 and Rs. 55.0 crore in FY2026 which is expected to be sufficiently met by internal accruals and existing cash and liquid investments. Further, no major capex planned in FY2026 supports the liquidity profile of the company.

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, thus improving financial risk profile.

Negative factors – The ratings may be downgraded if there is a significant decline in earnings due to lower offtake from the new unit. Pressure on the ratings could also emerge in case of higher-than-expected debt-funded capex, impacting the liquidity profile and debt metrics. Specific credit metrics, which could trigger a negative rating, include a DSCR of less than 2.0 times on a sustained basis.

Analytical approach

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

About the company

N R Agarwal Industries Limited (NRAIL), incorporated in 1993, manufactures different varieties of duplex paper board, writing & printing paper (WPP) and newsprint. The company has three operational manufacturing facilities which are located at Vapi and Sarigam, Gujarat with a total capacity of 4,40,000 MTPA. NRAIL does not have any subsidiaries or any other group concerns. It is listed on the NSE and BSE. All the utilities are in place for the manufacturing plants. Most of the power requirement is met through captive power generation while the remaining is met through purchase from the Gujarat Electricity Board (GEB).

Key financial indicators (audited)

NRAIL Standalone	FY2023	FY2024	H1 FY2025*
Operating income	1,766.1	1,293.1	775.4
PAT	99.3	125.5	11.7
OPBDIT/OI	10.5%	14.6%	7.1%
PAT/OI	5.6%	9.7%	1.5%
Total outside liabilities/Tangible net worth (times)	0.6	1.1	1.3
Total debt/OPBDIT (times)	0.9	3.1	6.3
Interest coverage (times)	13.5	17.9	1.9

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore*

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Jan 3, 2025	Date	Rating	Date	Rating	Date	Rating
Cash Credit	**Long term**	**288.00**	[ICRA]A (Stable)	Nov 16, 2023	[ICRA]A (Stable)	Sep 27, 2022	[ICRA]A (Stable)	Feb 23, 2022	[ICRA]A (Stable)
								Jan 20, 2022	[ICRA]A (Stable)
								Oct 26, 2021	[ICRA]A (Stable)
								Jul 21, 2021	[ICRA]A (Stable)
Term Loan	**Long term**	**590.64**	[ICRA]A (Stable)	Nov 16, 2023	[ICRA]A (Stable)	Sep 27, 2022	[ICRA]A (Stable)	Feb 23, 2022	[ICRA]A (Stable)
								Jan 20, 2022	[ICRA]A (Stable)
								Oct 26, 2021	[ICRA]A (Stable)
								Jul 21, 2021	[ICRA]A (Stable)
Non-fund based	**Long term**	**77.00**	[ICRA]A1	Nov 16, 2023	[ICRA]A1	Sep 27, 2022	[ICRA]A1	Feb 23, 2022	[ICRA]A1
								Jan 20, 2022	[ICRA]A1
								Oct 26, 2021	[ICRA]A1
								Jul 21, 2021	[ICRA]A1
Issuer rating	**Long term**	**0.00**						Jan 20, 2022	[ICRA]A (Stable) withdrawn

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	-	288.00	[ICRA]A (Stable)
NA	Term Loan- I	FY2022	NA	FY2032	225.00	[ICRA]A (Stable)
NA	Term Loan – II	FY2022	NA	FY2032	200.00	[ICRA]A (Stable)
NA	Term Loan -III	FY2023	NA	FY2030	65.64	[ICRA]A (Stable)
NA	Proposed Term Loan	NA	NA	NA	100.00	[ICRA]A (Stable)
NA	Non-fund Based	NA	NA	NA	77.00	[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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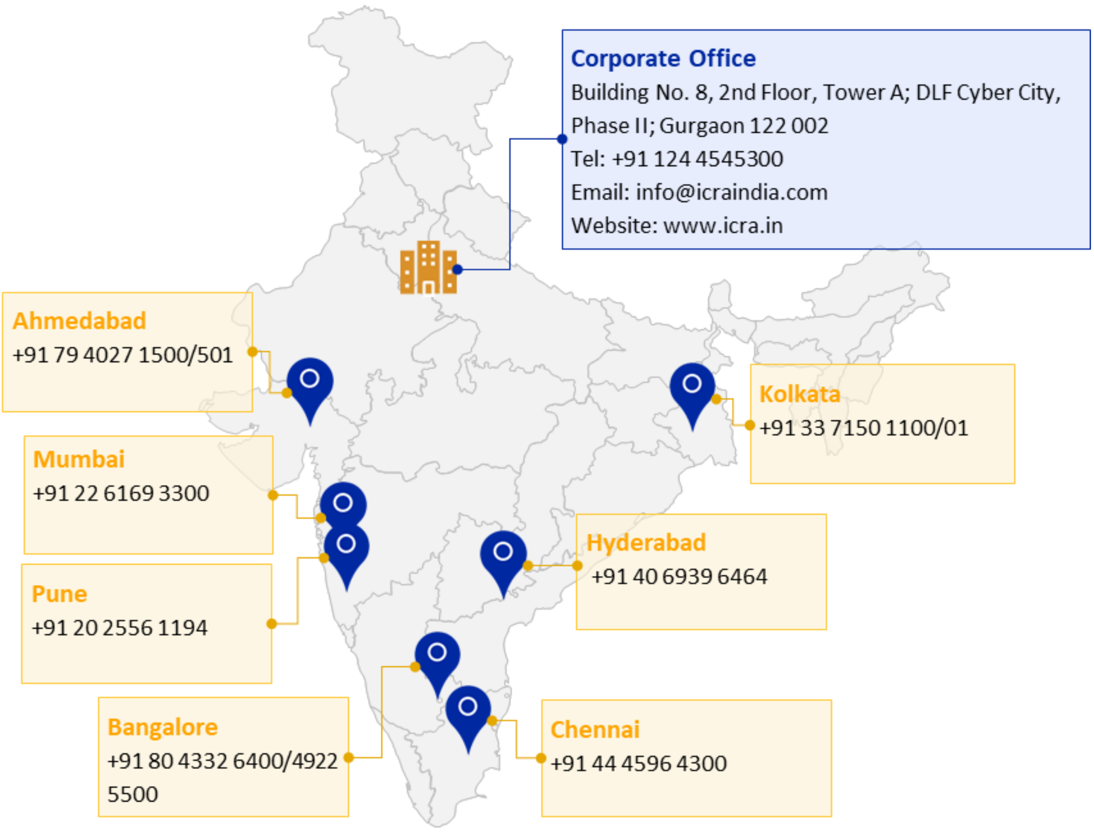

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