Nahar Industrial Enterprises Limited

Instrument	Amount (Rs. Crore)	Rating Action
Long-term fund-based	1396.00*	[ICRA]A (Stable) / upgraded
Short-term non fund-based	75.00	[ICRA]A1 / upgraded

**includes unallocated amount of Rs. 364.19 crore (increased from Rs. 166.74 crore)*

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus) for the Rs. 1396.00 crore[1] fund-based bank limits of Nahar Industrial Enterprises Limited (NIEL)[†]. The outlook on the long-term rating is Stable. ICRA has also upgraded the short-term rating to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 75.00 crore non fund-based bank limits of NIEL.

The rating upgrade takes into account the steady reduction in debt levels following the scheduled debt repayments and limited outgo towards capital expenditure. ICRA also notes that the debt repayment burden for NIEL has eased to ~Rs. 80-95 crore from FY2017 onwards after having remained high at ~Rs. 135-170 crore during the last three years. Compared to this repayment burden, ICRA expects annual cash accruals of NIEL to be comfortable at Rs. 140-150 crore in the medium term. Also, while the debt repayments have eased, they remain sizeable and are expected to continue to drive a steady decline in the term debt level for NIEL as the company plans to undertake only modest capital expenditures towards modernisation and de-bottlenecking of existing capacities. Further, with the reduced repayment liabilities, the deployment of incremental surplus cash accruals in the business is expected to drive a moderation in dependence upon working capital borrowings. Hence, the leverage is expected to improve from Total Debt/OPBDITA of >4.5x during FY2015 and FY2016 to less than 3.8x in FY2017.

While upgrading the ratings, ICRA also takes into account possible benefits arising from low cost cotton and sugar inventory carried by the company at the beginning of FY2017, prior to a spurt in prices. The resulting inventory gains are expected to support profits and cash accruals in Q2 FY2017, though the profitability thereafter is expected to revert to normal levels witnessed during the past two years.

The ratings continue to take into account NIEL's large scale of operations with one of the largest domestic capacities for spinning and weaving, resulting in operational efficiencies on account of economies of scale. It also takes note of the satisfactory operational performance with spinning and weaving mills operating at close to ~96~99% capacity utilisation levels and the track record of close to two decades in the textile business with an established market presence and distribution network. The spinning operations are partially forward integrated into weaving, which increases the value addition and also moderates the impact of cyclicality in the spinning industry. Moreover, the ratings also take into account the operational and financial flexibility enjoyed by NIEL on account of being part of the Ludhiana (Punjab)-based *Nahar* Group, which is one of the largest textile groups in the country with vertically integrated operations from spinning to garmenting.

The ratings, however, continue to be constrained by NIEL's high working capital intensity of operations, which like other spinning companies, is on account of the seasonal nature of cotton availability that requires stocking during the harvest season. The stocking requirement will continue to keep the leverage high and profitability vulnerable to volatility in the cotton prices. The ratings also factor in the company's susceptibility to the cyclicality in the spinning sector, given the substantial fixed overheads and large scheduled debt repayments. Further, ICRA also notes that the commoditised nature of the products (cotton yarn and fabric) and the highly competitive industry, due to its fragmented nature, will continue to keep profitability margins under check. However, in any unforeseen profitability pressures leading to lower accruals, ICRA takes comfort from NIEL's healthy liquidity profile with sufficient undrawn working capital limits during the year.

ICRA notes that the domestic spinning industry continues to remain vulnerable to the level of the exports and stagnant domestic demand. As China has emerged as the largest buyer of Indian yarn over the last few years,

[1] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

accounting for ~45% of the total cotton yarn exports in FY2015, the export demand in turn depends on China's policy on import of cotton and cotton yarn and liquidation of its huge cotton reserves. Also, with the recent increase, the domestic cotton prices have turned higher than the international prices and the export prospects for the spinning industry remain challenging in the near term. The decline in yarn exports will result in a shift of the export supply to the domestic market, and can impact the utilisation levels and contribution margins of the spinning mills.

Going forward, NIEL's ability to sustain the healthy capacity utilisation levels and improvement in the profitability margins, particularly in the yarn business, will be critical to further strengthen the financial profile. Moreover, as ICRA expects the improvement in NIEL's financial profile to be also driven by the decline in the debt levels; timing, scale and funding mix of any new capital expenditure programme or deterioration in the working capital cycle will be the drivers of the debt levels and its financial profile; and thus are likely to be the key rating sensitivities.

Company Profile

NIEL is part of the Ludhiana-based *Nahar* Group and was incorporated in September 1983 as Oswal Fats & Oils Limited. The *Nahar* Group is one of the largest and oldest textile groups in the country with vertically integrated operations from spinning to garmenting and retailing. The other Group companies are Monte Carlo Fashions Ltd. (rated [ICRA]A+/A1+), Oswal Woollen Mills Limited (rated [ICRA]A+/A1+) and Nahar Spinning Mills Ltd.

While NIEL started with manufacturing of fatty acid, toilet soaps and vanaspati ghee, it has over the years completely diversified into the textile business with limited presence in sugar as well, both through capacity expansion and merger of the group companies. NIEL is at present, primarily involved in spinning, with an installed capacity of 2.71 lakh spindles and 7,832 rotors; and weaving, with an installed capacity of 509 air jet looms (~580 lakh metres per annum) and fabric processing capacity of 480 lakh metres per annum. In addition, NIEL also has a sugar unit with a capacity of crushing 4,000 tonnes of sugarcane per day. NIEL's manufacturing units are mostly located in Punjab, with spinning units in Lalru, Ludhiana (both in Punjab) and Bhiwadi (Rajasthan). The weaving and processing unit is based in Lalru (Punjab) and the sugar unit in Amloh (Punjab).

In FY2016, NIEL reported operating income of Rs. 1776 crore and operating profitability of 12.3% as against an operating income of Rs. 1803 crore and operating profitability of 11.0% in FY2015 and operating income of Rs.1850 crore with operating profitability of 17.6% in FY2014.

Recent Results

In Q1 FY2017, NIEL reported an operating income of Rs. 469.1 crore and operating profitability of 12.5% as against an operating income of Rs. 433.0 crore and operating profitability of 11.7% in Q1 FY2016 and an operating income of Rs. 495.4 crore with operating profitability of 14.5% in Q4 FY2016.

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