December 22, 2020

N R Agarwal Industries Limited: [ICRA]A (Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	0.00	0.00	[ICRA]A (Stable); assigned
Total	**0.00**	**0.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favourably factors in the healthy financial profile of N R Agarwal Industries Limited (NRAIL) characterised by robust profitability levels and coverage indicators coupled with comfortable leveraging levels. The rating also takes into account the significant scale of operations with a moderate product diversification and the established track record of the promoters with experience of more than 30 years in the paper industry. Further, ICRA notes that NRAIL has an established network of agents for sale of its products with a strong presence in western India. Moreover, its capacity utilisation levels have remained healthy over the past few years supported by good demand indicators.

The rating, however, remains constrained by the vulnerability of NRAIL's profitability to fluctuations in waste paper prices, which have remained volatile during the past three to four fiscals. However, the fact, the company has robust systems in place to be able to partially pass on the fluctuations in prices to its customers and retain its margins is a positive and limits the risk to an extent. Profit margins also remain vulnerable to any adverse fluctuations in foreign exchange in the absence of a firm hedging mechanism as ~50% of its raw material requirements are met through imports. However, the company also derives nearly 15%-20% of its revenues through exports which provides a natural hedging, to an extent. While the slowdown in economic activity amid the pandemic and shut down of manufacturing plants during the lockdown have impacted the top line in FY2021, the same should recover in the next fiscal. Additionally, any large debt-funded capacity expansion taken up the company in the future would be a sensitivity and would be assessed at the time on the basis of its characteristics, anticipated execution risks and expected cash flows.

Key rating drivers and their description

Credit strengths

Established track record of the company in the paper industry – NRAIL has been engaged in manufacturing paper products since 1993 and has developed an established presence and distribution network in the industry over the past three decades. Its operations are managed by Mr. R N Agarwal, who is the managing director of the company, and has an extensive experience of more than three decades in the paper industry.

Financial profile characterised by healthy profitability levels, coverage indicators and comfortable leveraging – The operating profitability has remained healthy at 15.1% and 15.4% in FY2020 and H1 FY2021, respectively. The company benefitted from continuous decrease in raw material prices after the Chinese government banned the import of waste paper from FY2019. The net worth base of the company remains healthy, which coupled with the moderate debt levels resulted in a comfortable capital structure as reflected by a gearing of 0.5 time as on September 30, 2020 (0.5 time as on March 31, 2020). The coverage indicators too remain healthy as reflected by net cash accruals/total debt of 50% (77% in FY2020) and leveraging (total debt/OPBDITA) of 0.9 time (1.4 times in FY2020) in H1 FY2021.

Healthy capacity utilisation levels – NRAIL has five manufacturing units at Vapi and Sarigam, Gujarat, with a total production capacity of 3,40,000 MT. Capacity utilisation remained healthy at 86% in FY2019 and FY2020, but declined to 68% in H1 FY2021, led by shutdown of factories in the month of April 2020 and lower production levels in later months due to subdued demand amid the pandemic. However, going forward, as the lockdown eases further and the economy recovers, the demand for its products is expected to increase, leading to improvement in capacity utilisation.

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 the boxes as per specifications of the end-user industries such as pharmaceuticals and FMCG. The company also directly supplies its products to a few end-user companies, who generate approximately 30% to 40% of its total sales. NRAIL's customer base remains moderately diversified with its top 10 customers driving 32% and 37% of its total revenues in FY2020 and H1 FY2021, respectively.

Credit challenges

Profitability exposed to volatility in waste paper prices; NRAIL's ability to pass on increase in waste paper prices remains critical – The main raw material used in the manufacturing process is waste paper, which accounts for ~75% of NRAIL's total raw material costs. The prices of waste paper vary with changes in waste paper related regulations. The Chinese government's ban on the import of waste paper had increased global supply, which led to decline in waste paper prices from FY2019 onwards, thus reducing the company's raw material prices and subsequently leading to increase in its profitability. However, any reversal in China's policies or the introduction of similar ban on import of waste paper in India can adversely affect NRAIL's profitability in the future. Hence, the operating margins remain vulnerable to input prices of waste paper, which have remained volatile for the past three to four fiscals, as well as to NRAIL's ability to pass on the rise to its customers or contain any benefit of the same within the company.

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 form ~50% of total raw material requirements. Thus, NRAIL's margins remain vulnerable to any adverse fluctuations in foreign exchange rates in the absence of a hedging mechanism. However, the company also derives nearly 15–20% of its revenues through exports, which provides a natural hedge, to an extent.

Slowdown in economic activity amid Covid-19 likely to impact revenues in FY2021 – Due to closure of its manufacturing plants during the nation-wide lockdown induced by the Covid-19 pandemic and the slowdown in economic activity, the top line is likely to be impacted in the current fiscal as reflected by 33% YoY decline to Rs.

482.2 crore in H1 FY2021. However, following the resumption of operations from April 2020, the capacity utilisation has been growing, and at present remains nearly at pre-Covid levels.

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. 152.50 crore on its books as on March 31, 2020. The average working capital utilisation stood at 51% for its fund-based limits in the 12-month period ending October 2020, providing sufficient cushion to its liquidity position. ICRA does not foresee any major concerns on liquidity, given the absence of capacity expansion plans, limited term debt repayments in the medium term, healthy cash accruals and sufficient buffer available in the form of unutilised working capital limits.

Rating sensitivities

Positive triggers – The rating may be upgraded in case the company registers sustained growth in revenues and profitability leading to healthy cash accruals and strong debt coverage indicators.

Negative triggers – The ratings may be downgraded if there is significant decline in revenues and profitability due to lower off-take from customers or sharp decline in realisation. Negative pressure on rating could emerge in case of any significant debt-funded capex or moderation in profitability, which leads to Total Debt/ OPBITDA exceeding 1.50 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]()
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1993, N R Agarwal Industries Limited (NRAIL) manufactures different varieties of duplex paper board, writing and printing paper (WPP) as well as newsprint. However, the company discontinued its newsprint business in FY2020. NRAIL has five manufacturing facilities at Vapi and Sarigam, Gujarat. It does not have any subsidiaries or any other group concerns and is listed on NSE and BSE. All the utilities are in place for its manufacturing plants and most of its power requirement is met through captive power generation, with the remaining being purchasing from the Gujarat Electricity Board (GEB).

As per H1 FY2020 provisional estimates, NRAIL reported a net profit of Rs. 32.3 crore on an OI of Rs. 482.8 crore, against a net profit of Rs. 116.7 crore on an OI of Rs. 1431.8 crore in FY2020.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	H1FY2021 (Provisionals)
Operating Income (Rs. crore)	1336.6	1431.8	482.8
PAT (Rs. crore)	94.6	116.7	32.3
OPBDIT/ OI (%)	13.9%	15.1%	15.4%
RoCE (%)	29.6%	31.5%	18.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.1	1.0
Total Debt/ OPBDIT (times)	1.6	0.9	1.4
Interest Coverage (times)	5.4	6.0	4.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					Dec-22-2020	-	-	-
1	Issuer rating	Long-Term	0.00	-	[ICRA]A (Stable)	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	0.00	[ICRA]A (Stable)

Source: NRAIL

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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.

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