

July 21, 2021

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	125.62	125.62	[ICRA]A (Stable); reaffirmed
Long-Term – Fund Based Term Loan	135.54	560.54	[ICRA]A (Stable); reaffirmed
Short-Term – Non-Fund Based	88.84	88.84	[ICRA]A1; reaffirmed
Total	350.00	775.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to consider the established track record of the promoters with experience of more than 30 years in the paper industry and its large scale of operations. The ratings continue to factor 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. Further, ICRA notes that NRAIL has an established network of agents for selling its products and has 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 ratings, however, remain constrained by the vulnerability of NRAIL's profitability to fluctuations in waste paper prices, which also impacted the margins in FY2021, along with continuing demand pressure in the writing paper segment due to the Covid-19 pandemic. The 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 15-21% of its revenues through exports, which provides a natural hedge to an extent. ICRA notes that the company is planning to incur a sizeable debt-funded capex over FY2022-FY2024 towards capacity enhancement of duplex paper board, which exposes it to project execution risk. Though the project is spread over the next two fiscals and the repayment is likely to start post moratorium from then, the ability of the company to achieve financial closure at favourable terms, timely execution of the project, with no material impact on the capital structure and coverage indicators will remain key ratings factors, going forward.

The Stable outlook reflects ICRA's expectations that NRAIL will benefit from the extensive experience of its promoters, its large scale of operations and healthy profit levels.

Key rating drivers and their description

Credit strengths

Established track record of the company in the paper industry – NRAIL has been involved with 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 Chairman and 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 remained healthy at 15.1% in FY2020. However, the margins declined to 11.6% in FY2021 owing to a rise in waste paper prices and freight costs in H2 FY2021. The net worth base of the company remained healthy, which coupled with the moderate debt levels resulted in a comfortable capital structure, as reflected by a gearing of 0.4 times as on March 31, 2021 (0.5 times as on March 31, 2020). The coverage indicators too remained healthy, as reflected by net cash accruals/total debt of 58% (77% in FY2020) and leveraging (total debt/OPBDITA) of 1.3 times (0.9 times in FY2020) in FY2021.

Healthy capacity utilisation levels – NRAIL has five manufacturing units at Vapi and Sarigam, Gujarat, with a total production capacity of 3,54,000 MT. Capacity utilisation remained healthy at 96% in FY2019 and 93% in FY2020, but declined to 81% in FY2021, owing to shutdown of factories in April 2020 and lower production levels in the subsequent months due to subdued demand amid the pandemic. However, going forward, with limited lockdown restrictions, the demand for its products is expected to increase, leading to an 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 that make 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 which generate approximately 30% to 40% of its total sales. NRAIL's customer base remains moderately diversified with its top 10 customers generating 32% and 35% of its total revenues in FY2020 and FY2021, respectively.

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 the duplex paper board. Through the capacity expansion, NRAIL intends to enhance its production capacity by ~1,50,000 MTPA in the duplex board 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, it is exposed to the project execution risk. Further, the company's ability to commence project within the stipulated timeline with no cost overrun remains a key rating monitorable. The project cost is proposed to be funded through Rs. 425.0-crore term loan and the remaining through internal accruals. With the on-boarding of the debt, debt-coverage metrics are likely to moderate over FY2022-FY2024. ICRA, however, draws comfort from the existing cash flows from the present operations, with the existing term debt maturing by FY2023. The repayment for the new project is expected to start post that, with stabilisation of the new unit. The company's ability to achieve financial closure at favourable terms to keep capital structure and coverage indicators under check, will remain a key rating sensitivity, going forward.

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. Hence, the operating margins remain vulnerable to input prices of waste paper, which is also reflected by the impact on margins in FY2021 due to a rise in input prices.

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 ~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 derives nearly 15-21% 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. 101.2 crore on its books as on March 31, 2021, which is to be repaid by FY2023, and is expected to

be comfortably covered by cash accruals. The average working capital utilisation stood at 64% for its fund-based limits in the last 15-month period ending June 2021, providing sufficient cushion to its liquidity position.

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 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 emerge in case of any material delay in commissioning of the new unit, leading to cost over-runs, impacting the liquidity profile and debt metrics. Specific credit metric, which can lead to a negative rating trigger, will be an interest coverage 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	Standalone

About the company

Incorporated in 1993, N R Agarwal Industries Limited (NRAIL) manufactures various 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 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, and the remaining is purchased from the Gujarat Electricity Board (GEB).

Key financial indicators (audited)

	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	1,336.6	1,431.8	1,145.6*
PAT (Rs. crore)	94.6	116.7	57.2
OPBDIT/OI (%)	13.9%	15.1%	11.6%
PAT/OI (%)	7.1%	8.2%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.1	1.0
Total Debt/OPBDIT (times)	1.6	0.9	1.3
Interest Coverage (times)	5.4	6.0	4.4

Source: Company, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation. All calculations are as per ICRA research

*Net revenues after deducting Rebate & Discount

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					July 21, 2021	January 05, 2021	December 22, 2020		
1	Cash Credit	Long-Term	125.62	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
2	Term Loan	Long-Term	560.54	101.21	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
3	Non-Fund Based	Short-Term	88.84	-	[ICRA]A1	[ICRA]A1	-	-	-
4	Issuer rating	Long-Term	0.00	-	-	-	[ICRA]A (Stable)	-	-

&= Under watch with developing implications

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 analyzing 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, is available on ICRA's 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	Cash Credit	NA	NA	NA	125.62	[ICRA]A (Stable)
NA	Term Loan-I	FY2010	NA	FY2024	135.54	[ICRA]A (Stable)
NA	Term Loan-II (Proposed)	NA	NA	NA	425.00	[ICRA]A (Stable)
NA	Non-fund Based	NA	NA	NA	88.84	[ICRA]A1

Source: Company

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.

For more information, visit www.icra.in

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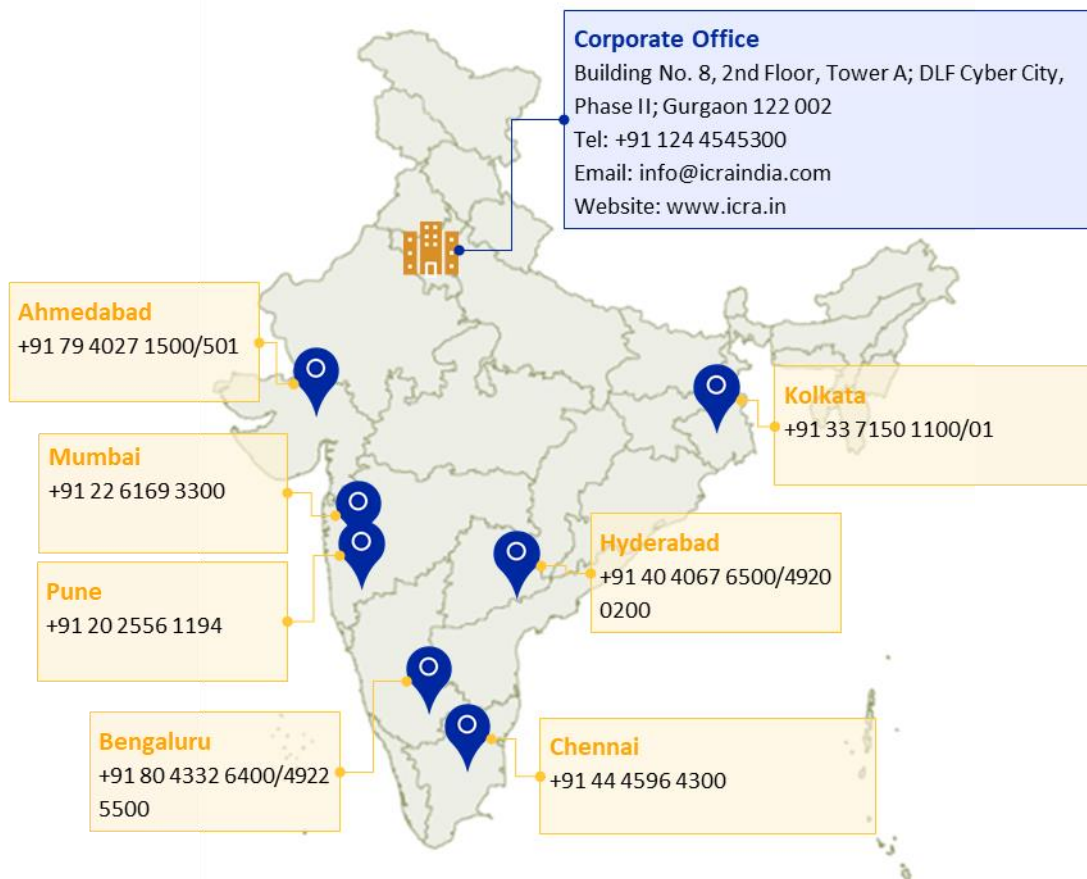


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