July 22, 2021

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-1*

Rationale

The rating reaffirmation factors in the good capitalisation level and comfortable liquidity profile of Nahar Capital and Financial Services Ltd (NCFSL) with a gearing of 0.01 times, a capital adequacy ratio of 97.2%, and liquid investments of ~Rs. 160 crore as of March 31, 2021. Also, the rating continues to draw comfort from NCFSL being a part of the 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 good credit profile. ICRA also notes that NCFSL's earnings profile is exposed to the inherent volatility associated with capital markets, given the nature of its business. However, with the company's investments being well-diversified among various capital market instruments like mutual funds (both debt and equity), debentures and equity shares, the risk is somewhat mitigated. ICRA also notes that 34% of NCFSL's total assets, as on March 31, 2021, are invested in various Nahar Group companies (Rs. 247 crore). Thus, the performance of those underlying companies would have a bearing on the company's credit profile.

Overall, 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

Conservative capitalisation level and healthy liquidity profile – NCFSL's balance sheet is primarily equity funded with limited dependence on debt over the years. As on March 31, 2021, the capitalisation level was comfortable with a gearing of 0.01 times and a capital adequacy ratio of 97.2%. Going forward as well, the company plans to keep its overall gearing at a similarly low level. NCFSL's liquidity profile also stood healthy, as of March 31, 2021, with sizeable surplus liquid investments of about Rs. 160 crore compared to borrowings of about Rs. 6 crore.

Financial flexibility by virtue of being a part of the 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 Nahar Group include Monte Carlo Fashions Limited ([ICRA]AA- (Stable)/[ICRA]A1+), Oswal Woollen Mills Ltd ([ICRA]A- (Negative)/[ICRA]A2+), Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited ([ICRA]BBB+ (Stable)/[ICRA]A2+), and Nahar Poly Films Limited. The shared brand name augurs well for the company's financial flexibility.

At the same time, ICRA notes that 34% of NCFSL's assets are invested in various Nahar Group companies (total investment of Rs. 247 crore as on March 31, 2021). Thus, the performance of these underlying companies would have a bearing on NCFSL's credit profile. Also, it has extended Rs. 45 crore of loans to Group companies as on March 31, 2021. While the proportion of such transactions has been low and is based on commercial decisions, a significant increase in such transactions 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 (68% of total income in FY2021), interest income (15%), dividend income (10%) and other income including rental income (8%). 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, 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, albeit with an increased return on average equity (RoE) of 4.4% in FY2021 (vs. 2.1% in FY2020) and a 131% year-on-year (YoY) increase in revenues driven by the higher gain on the sale of investments. The significant increase in income, coupled with the stable operating expenses and a marginal decline of Rs. 0.3 crore in interest expense, led to an increase in the profit after tax (PAT) to Rs. 29.7 crore in FY2021 (vs Rs. 14.6 crore in FY2020, which was largely supported by lower taxation). The return on assets (RoA) and RoE increased to 4.30% and 4.41%, respectively, in FY2021 from 2.06% and 2.10%, respectively, in FY2020.

Liquidity position: Strong

The company's liquidity profile was healthy as of March 31, 2021 with sizeable surplus liquid investments of about Rs. 160 crore compared to borrowings of about Rs. 6 crore (overdraft limit) and sanctioned overdraft limits of Rs. 48 crore. It did not have any borrowings in the form of commercial paper.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be revised downwards 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 the 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 ICRA's Credit Rating Methodology for Holding Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in April 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 the Nahar Group (~40% of the investments as on March 31, 2021), mutual funds (~20%), preference shares (~9%), listed equity shares (13%), bonds and AIFs (Alternative Investment Funds) (~10%) 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 Nahar Group include Monte Carlo Fashions Limited, Oswal Woollen Mills Ltd, Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited and Nahar Poly Films Limited.

NCFSL reported a profit after tax (PAT) of Rs. 29.7 crore in FY2021 on an asset base of Rs. 731 crore as on March 31, 2021 against a PAT of Rs. 14.6 crore in FY2020 on an asset base of Rs. 649 crore as of March 31, 2020.

NCFSL is a public limited company with its shares listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). As on March 31, 2021, the company's promoters held 71.06% of the total equity with public and financial institutions holding the rest.

Key financial indicators (audited)

Nahar Capital and Financial Services	FY2019	FY2020	FY2021*
Total income (Rs. crore)	25	21	48
Profit after tax (Rs. crore)	12	15	30
Net worth (Rs. crore)	756	635	711
Loan book (Rs. crore)	1	27	45
Total assets (Rs. crore)	772	649	731
Return on assets (%)	1.55%	2.06%	4.30%
Return on net worth (%)	1.58%	2.10%	4.41%
Gross gearing (times)	0.01	0.01	0.01
Gross NPA (%)	98.69%	0.00%	0.00%
Net NPA (%)	-7.36%	0.00%	0.00%
Solvency (Net NPA/Net worth)	0.05%	0.00%	0.00%
CRAR (%)	96%	98%	97%

Source: *Company; *Provisional numbers; All ratios as per ICRA calculations*

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 on Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					Jul 22, 2021	Aug 31, 2020	May 07, 2019	Mar 30, 2018
1	Commercial Paper Programme	Short term	25	25	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

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: www.icra.in

Annexure-1: Instrument details

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

Source: *ICRA research; *yet to be placed*

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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