July 18, 2022

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 I*

Rationale

The rating reaffirmation factors in the conservative capitalisation level and healthy liquidity profile of Nahar Capital and Financial Services Ltd (NCFSL) with a net worth of Rs. 804 crore, negligible borrowings, a capital adequacy ratio of 97.6%, and liquid investments of ~Rs. 254 crore as of March 31, 2022. The rating continues to draw comfort from NCFSL being a part of 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, the risk is somewhat mitigated as the company's investments are well-diversified among various capital market instruments like mutual funds (both debt and equity), debentures and equity shares. ICRA also notes that 37% of NCFSL's total assets, as on March 31, 2022, were invested in various Nahar Group companies (Rs. 299 crore) and also obtains dividend income from these companies. Thus, the performance of these underlying companies in equity markets would have a bearing on NCFSL's credit profile. NCFSL also lends to group entities from time to time to support their respective operations, though the overall quantum of such transactions has remained low. The company'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 and healthy liquidity profile – NCFSL's balance sheet is primarily funded by equity with limited dependence on debt over the years. As on March 31, 2022, the capitalisation level was comfortable with a net worth of Rs. 804 crore and negligible borrowings. Going forward as well, the gearing levels are expected to remain low. NCFSL's liquidity profile was also healthy, as of March 31, 2022, with sizeable liquid investments of ~Rs. 254 crore compared to total borrowings of Rs. 1.5 crore.

Financial flexibility by virtue of being a part of 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 Group include Monte Carlo Fashions Limited, Oswal Woollen Mills Ltd (rated [ICRA]A (Stable)/[ICRA]A2+), Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited, and Nahar Poly Films Limited. The shared brand name supports NCFSL's financial flexibility.

ICRA notes that 37% of NCFSL's assets, as on March 31, 2022, were invested in various Nahar Group companies (total investment of Rs. 299 crore) and also obtains dividend income from these companies. Thus, the performance of these underlying companies would have a bearing on NCFSL's credit profile. NCFSL also lends to group entities from time to time to support their respective operations, though the overall quantum of such transactions has remained low. Moreover, its exposure to group companies would be subject to the requirements of these companies and the commercially viability of the same for NCFSL. While the proportion of such transactions has been low, a significant increase in the same 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 segment in the form of income from the sale of investments (43% of total income in FY2022), interest income (19%), dividend income (30%) and other income, which mainly consists of rental income (8%). Given the high dependence of the company's earnings on Group companies, the overall profitability has remained adequate with a return on average assets (RoA) of 3.9% in FY2022 (4.3% in FY2021).

The income profile remains vulnerable to cyclical downturns in the capital market segment and the return indicators could remain volatile. 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 (AIFs), private equity funds, global equity funds, gold/commodity funds, etc, which is expected to limit its losses in a depressed market scenario.

Liquidity position: Strong

The company's liquidity profile was strong as on March 31, 2022 with sizeable liquid investments of ~Rs. 254 crore compared with total borrowings of Rs. 1.5 crore (overdraft limit) and sanctioned overdraft limits of Rs. 48 crore. It did not have any borrowings in the form of commercial papers as on March 31, 2022.

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 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 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 Nahar Group (~40% of the investments as on March 31, 2022), investments in mutual funds (~18%), preference shares (~11%), listed equity shares (14%), bonds and AIFs (~12%) 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 Group include Monte Carlo Fashions Limited, Oswal Woollen Mills Limited, Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited and Nahar Poly Films Limited.

NCFSL reported a profit after tax (PAT) of Rs. 30.4 crore in FY2022 on an asset base of Rs. 818 crore as on March 31, 2022 against a PAT of Rs. 29.7 crore in FY2021 on an asset base of Rs. 731 crore as on March 31, 2021.

NCFSL is a public limited company with its shares listed on the NSE and the BSE. As on March 31, 2022, the company's promoters held 71.47% of the total equity with public and financial institutions holding the rest.

Key financial indicators

Nahar Capital and Financial Services Ltd	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Total income	21	48	50
Profit after tax	15	30	30
Net worth	635	711	804
Loan book	27.02	45.03	0.03
Total assets	649	731	818
Return on assets	2.1%	4.3%	3.9%
Return on net worth	2.1%	4.4%	4.0%
Gross gearing (times)	0.01	0.01	0.00
Gross NPA	0.0%	0.0%	0.0%
Net NPA	0.0%	1.0%	0.0%
Solvency (Net NPA/Net worth)	0.0%	0.1%	0.0%
CRAR	97.9%	97.2%	97.6%

Source: ICRA Research, NCFSL; All figures and ratios as per ICRA's calculations
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument				Current Rating (FY2023)	Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jul 18, 2022	Jul 22, 2021	Aug 31, 2020	May 07, 2019
1	Commercial Paper Programme	ST	25	0	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

ST – Short term

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 I: Instrument details as on March 31, 2022

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme*	NA	NA	NA	25	[ICRA]A1+

*Source: NCFSL; *Yet to be placed*

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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