

August 25, 2025

N R Agarwal Industries Limited: Ratings downgraded to [ICRA]A-(Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Cash credit	288.00	288.00	[ICRA]A- (Stable); downgraded from [ICRA]A(Stable)
Long-term fund based – Term loan	590.64	590.64	[ICRA]A- (Stable); downgraded from [ICRA]A(Stable)
Short term non-fund based	77.00	77.00	[ICRA]A2+; downgraded from [ICRA]A1
Total	955.64	955.64	

*Instrument details are provided in Annexure-I

Rationale

The ratings downgrade for N R Agarwal Industries Limited (NRAIL) reflects expectation of weakening in the financial profile owing to continued pressure on its operating profit margin (OPM) and higher-than-expected debt-funded capital expenditure (capex). Moreover, the planned utilisation of existing cash and bank deposits and other investments (equity and mutual funds) towards the planned capex in FY2026 and FY2027 will also weaken the liquidity buffer available to the company, vis-a-vis ICRA's earlier expectations.

Despite reporting a 28% YoY revenue growth in FY2025, the overall OPM declined to 6.7% from 14.6% in FY2024, driven by sustained pressure on sales realisations level amid increased import of cheap paper products. This was also driven by higher expenses during the stabilisation phase for the new plant, which commenced operations in March 2024. While the OPM was expected to improve from Q4 FY2025 led by stabilisation of the new plant and expectation of high value products sold from the new plant, the same has not materialised. The company witnessed a decline in OPM to 3.7% in Q1 FY2026 from 8.0% in Q1 FY2025, led by subdued realisations in writing and printing paper (WPP) segment on YoY basis. Additionally, plant shutdown for 20 days in unit-I for maintenance and installation of new machines in Q1 FY2026 led to additional costs and further impacted the operating margins. As per the management, the company has affected price hikes in July 2025, which led to some improvement in OPMs, though the sustenance of the same remains to be seen. The company also plans to focus on value added products from Q2 FY2026 onwards to improve the operating profit margins of the company.

Against ICRA's earlier expectations of limited capex outgo in FY2026, NRAIL has now announced plans to set up a new Multilayer Board plant (Unit VI Project) with a proposed installed capacity of 1,000 tonnes per day (TPD) and an estimated investment of Rs. 1,200 crore over the next four years. As a part of this project, the company will be incurring Rs. 250 crore over FY2026 and FY2027 for purchase of board paper machine (with a capacity of 1,020 TPD) along with pulp stock preparation equipment and purchase of land. This is proposed to be funded by Rs. 120-130 crore of available investments and the balance Rs. 130-150 crore by term loans. Coupled with higher working capital requirements for the expanded capacity of 900 TPD and weakened OPMs, this will lead to high leverage levels and subdued debt coverage indicators. The ratings also remain constrained by the vulnerability of revenues and margins to net sales realisation of paper, which has been volatile recently, susceptibility of margins to wastepaper prices and foreign exchange (forex) rates. While exports provide a natural hedge towards imports, it remains exposed to sharp volatility in forex rates in the absence of any firm hedging mechanism.

The ratings continue to derive support from NRAIL's established track record of its promoters (more than 30 years in the paper industry), its large scale of operations, and its strong presence in western India. The ratings also factor in its established distribution network, healthy capacity utilisation levels in FY2025 and favourable long-term demand outlook for paper in the domestic market because of its low per-capita usage compared to global standards.

The Stable outlook reflects ICRA's expectations that NRAIL's operating profit margins will gradually improve over the medium term as the company ramps up the capacity of its new plant.

Key rating drivers and their description

Credit strengths

Established track record in the paper industry; good distribution network – NRAIL has been manufacturing paper products since 1993 and has developed an established presence and distribution network over the past three decades. Its operations are managed by Mr. R.N. Agarwal, Chairman and Managing Director, who has an extensive experience of more than three decades in the paper industry. NRAIL operates through an established network of agents and dealers with focus on sales in western India. The agents have tie-ups with printing and designing companies that make boxes as per specifications of various end-user industries such as pharmaceuticals and FMCG. Further, NRAIL's customer base remains moderately diversified.

Healthy capacity utilisation level – NRAIL has three operational manufacturing units at Vapi and Sarigam, Gujarat, with a total production capacity of 4,40,000 MTPA as on March 31, 2025. NRAIL had set up a new manufacturing unit with a capacity of 2,40,000 MTPA, which commenced from March 2024 for its duplex paper boards and further invested to increase the capacity to 900 TPD from Q1 FY2026. Through the capacity expansion, NRAIL intends to cater to the growing domestic demand and increase its market share in the paper industry.

Demand dynamics remain favourable– Long-term demand outlook for paper in the domestic market remains favourable because of its low per-capita usage, compared to global standards and increasing usage of packaging products. Growing demand for packaging from e-commerce, food and food products, FMCG, textiles and pharmaceutical sectors augurs well for the company. However, rising digitisation remains a threat for the growth of the WPP segment on a long-term basis.

Credit challenges

Expected weakening in financial profile – The coverage indicators of NRAIL are expected to continue to remain moderate in FY2026 amid weakened OPM and higher-than-expected debt-funded capex planned for FY2026 and FY2027. The company's operating margins declined significantly to 3.7% in Q1 FY2026 from 8.0% in Q1 FY2025 and 5.94% in Q4 FY2025, driven by sustained pressure on sales realisations level. Additionally, plant shutdown for 20 days in unit I for maintenance and installation of new machines in Q1 FY2026 led to extra costs, further impacting the operating margins. However, NRAIL is expected to improve its operating margins from Q2 FY2026 as the company has already undertaken price hike from July 2025 and focuses more towards value-added products, which are expected to deliver higher operating margins. In addition to lower OPM, the company plans to incur debt-funded capex in FY2026 and FY2027, which is expected to further exert pressure on the coverage indicators. The capex is estimated to be funded by a mix of new term loan, internal accruals and existing cash and bank deposits and investments. Utilisation of existing cash and bank deposits and investments for capex will further weaken the liquidity buffer available to the company, vis-à-vis ICRA's earlier expectations.

Profitability remains exposed to volatility in key input raw material – The main raw material used in NRAIL's manufacturing process is wastepaper, which accounts for 75-80% of its total raw material costs. The prices of wastepaper vary with changes in related regulations as well as the overall availability. The other key input for the entity is coal, which is largely imported. The company's ability to protect its margin through price hikes in case of any rise in input prices will remain a key rating sensitivity.

Profitability exposed to forex rate movements in the absence of any hedging policy – NRAIL sources wastepaper from both domestic and international markets. Imports are primarily made from North America, West Asia and Europe through various indenting agents and the same account for ~62% of its total raw material requirements. Thus, NRAIL's margins remain

vulnerable to any adverse fluctuation in forex rates in the absence of any hedging mechanism. Also, the company remains exposed to imported coal price fluctuations. However, it derives nearly 10-20% of its revenues from exports, which provides a natural hedge to an extent.

Environmental and Social Risks

Environmental considerations: The paper manufacturing industry is exposed to environmental risks of air, water and land pollution, with discarded paper and paperboard making up a sizeable portion of solid municipal waste in landfills. Manufacturing paper out of wastepaper requires a lot of resources such as water and power, creating a lot of wastewater and solid waste in the process. As a result, environment management is highly critical to continue sustainable business operations for the company. Also, water treatment is extremely important because the pulping and bleaching process can release complex organic and inorganic pollutants, which need to be properly treated. Any disruption in measures taken for appropriate treatment of wastewater could result in significant penalties, while also causing prolonged adverse impact to operations in case the authorities take any strict action.

Social considerations: The entities operating in the paper industry are exposed to the risk of disruption due to inability to properly manage human capital in terms of their safety and overall well-being. Further, any significant increase in wage rates adversely impacts the cost structure of paper manufacturing companies, impacting their margins.

Liquidity position: Adequate

The liquidity position of the company is adequate, supported by the headroom in working capital limits. The average working capital utilisation stood at 71% for its available drawing power in the last 12-month period ending in July 2025, with buffer of Rs. 52 crore as on July 31, 2025, providing sufficient cushion to its liquidity position. The company has capex plans of ~Rs. 250-270 crore in FY2026 and FY2027, which are expected to be funded by a mix of additional term loans (Rs. 150 crore), which are yet to be sanctioned, exiting cash and cash deposits, other investments (equity and mutual funds) and internal accruals. The company has repayment obligation of Rs. 42.5 crore in FY2026 and Rs. 51.0 crore in FY2027.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company can register a sustained growth in revenues after further scale-up from the new unit along with increase in profit margins, thus improving its financial risk profile.

Negative factors – The ratings may be downgraded if the company is unable to improve its earnings or if the large capex that is not prudently financed, impact the liquidity profile and debt metrics. Specific credit metrics, which could trigger a negative rating, include a DSCR of less than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Ratings are based on standalone financial statements

About the company

N R Agarwal Industries Limited (NRAIL), incorporated in 1993, manufactures different types of duplex paper board and WPP. The company has three operational manufacturing facilities located at Vapi and Sarigam, Gujarat with a total capacity of 4,40,000 MTPA. It is listed on NSE and BSE. All the utilities are in place for the manufacturing plants. Most of the power requirement is met through captive power generation while the remaining is met through purchase from the Gujarat Electricity Board.

Key financial indicators (audited)

NRAIL Standalone	FY2024	FY2025	Q1 FY2026*
Operating income	1,293.4	1,659.0	452.1
PAT	125.5	17.7	16.5
OPBDIT/OI	14.6%	6.7%	3.7%
PAT/OI	9.7%	1.1%	3.7%
Total outside liabilities/Tangible net worth (times)	1.1	1.3	-
Total debt/OPBDIT (times)	3.1	5.8	-
Interest coverage (times)	17.9	1.8	1.1

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

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, *Limited review

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current ratings (FY2026)				Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount Rated (Rs Crore)	Aug 25, 2025	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	288.00	[ICRA]A- (Stable)	Jan 3, 2025	[ICRA]A (Stable)	Nov 16, 2023	[ICRA]A (Stable)	Sep 27, 2022	[ICRA]A (Stable)
Term loan	Long term	590.64	[ICRA]A- (Stable)	Jan 3, 2025	[ICRA]A (Stable)	Nov 16, 2023	[ICRA]A (Stable)	Sep 27, 2022	[ICRA]A (Stable)
Non-fund based	Short term	77.00	[ICRA]A2+	Jan 3, 2025	[ICRA]A1	Nov 16, 2023	[ICRA]A1	Sep 27, 2022	[ICRA]A1

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 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	-	288.00	[ICRA]A- (Stable)
NA	Term Loan – I	FY2022	NA	FY2032	225.00	[ICRA]A- (Stable)
NA	Term Loan – II	FY2022	NA	FY2032	200.00	[ICRA]A- (Stable)
NA	Term Loan – III	FY2025	NA	FY2036	165.00	[ICRA]A- (Stable)
NA	Proposed Term Loan	NA	NA	NA	0.64	[ICRA]A- (Stable)
NA	Non-fund Based	NA	NA	NA	77.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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