

Nahar Capital and Financial Services Ltd

May 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	25	25	[ICRA]A1+; reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating continues to factor in the good capitalisation level and comfortable liquidity profile of Nahar Capital and Financial Services Ltd (NCFSL) with an estimated gearing of 0.01x, capital adequacy ratio of 94.7%, and liquid investments of about Rs. 205 crore as of March 31, 2019. 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. The rating is also supported by NCFSL's limited exposure to credit risk as its operations are largely restricted to investments in Group companies, mutual funds and equities.

While reaffirming the rating, ICRA continues to take cognisance of NCFSL's exposure to the inherent volatility associated with capital markets. The risk is also somewhat augmented by the fact that almost the entire revenue stream of the company is from capital market related activities thus exposing it to market risk. 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. Going forward, 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

Credit strengths

Good capitalisation level and comfortable liquidity profile – NCFSL's balance sheet is primarily funded by equity with limited dependence on debt. The capitalisation level remains comfortable with a net worth of Rs. 746 crore (as on September 30, 2019), gearing of 0.01x and a capital adequacy ratio of 94.7% (as on March 31, 2019). Moreover, the company's borrowings are likely to remain limited with an overall gearing of less than 0.1x at all times. The liquidity profile also stood comfortable as of March 31, 2019 with sizeable surplus liquid investments of about Rs. 205 crore compared to borrowings of about Rs. 5 crore.

Financial flexibility 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. The Group has an established track record of over six decades with vertically integrated operations from spinning to garmenting and retailing. Other companies in the Group include Monte Carlo Fashions Limited ([ICRA]AA-(Stable)/[ICRA]A1+), Oswal Woollen Mills Ltd ([ICRA]A+(Stable)/[ICRA]A1+), Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited ([ICRA]A-(Stable)/[ICRA]A2+) and Nahar Poly Films Limited. The shared brand name along with the common senior management augurs well for the company's financial flexibility.

Limited credit risk – NCFSL is primarily an investment company with investments in the Nahar Group (~43% of the investments as on March 31, 2019), mutual funds (~37%), debentures and preference shares (~10%). It also has minor investments in properties under development, real estate funds and listed/unlisted equity shares. With a limited loan book (estimated to be less than Rs. 1 crore as of March 31, 2019) in relation to the scale of business, the credit risk is low for the company. However, with 62% of the investment portfolio being in the form of direct equity/equity-oriented mutual funds, NCFSL is exposed to market risks. As of March 31, 2019, the market value of all quoted Group investments was about Rs. 240 crore, compared to a book value of Rs. 194 crore.

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 (55% in FY2019) and dividend income (25%). This makes its income profile volatile and vulnerable to cyclical downturns in the capital market segments. Nevertheless, ICRA notes that the company holds a well-diversified investment portfolio with instruments like mutual funds, debentures and equity shares, etc. This is expected to limit losses in the event of a downturn. Further, NCFSL has been trying to diversify its income profile to include alternative investments like real estate, portfolio management services, etc, which can support the revenue profile in future. However, some of these could augment the portfolio risk as well and the company’s ability to manage the risks would be a key monitorable.

Liquidity position

The company’s liquidity profile remains healthy with sizeable surplus liquid investments of about Rs. 205 crore as of March 31, 2019 compared to outstanding borrowings of about Rs. 5 crore, sanctioned overdraft limits of Rs. 30 crore and proposed borrowing ceiling of Rs. 70 crore.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	-
Consolidation/Standalone	Standalone

About the company

Nahar Capital and Financial Services Ltd (NCFSL) is engaged in investment activities, wherein it invests in mutual funds, equity shares, debentures, etc. The company was incorporated on April 1, 2006 following the acquisition of the investment business of Nahar Spinning Mills Limited.

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 Limited, Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited and Nahar Poly Films Limited.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	H1 FY2019 (Limited Review)
Accounting Standard	Indian GAAP	Indian GAAP	Ind-AS*
Profit on Sale of Securities	23.3	24.5	NA
Interest Income	2.9	2.9	NA
Dividend Income	6.9	11.3	NA
Total Income	33.4	40.9	16.7
Total Operating Expenses	3.1	5.3	3.7
Profit before Tax	30.0	34.0	12.6
Profit after Tax	25.3	28.5	10.0
Net Worth	531.3	556.8	NA*
Return on Average Net Worth	4.9%	5.2%	NA

Source: NCFSL; Amounts in Rs. crore; *Rs. 746 crore as on September 30, 2019

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					May-19	Mar-18	Mar-17	Feb-16	
1	Commercial Paper	ST	25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Note: ST - Short term

Source: ICRA research

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	Yet to be issued	-	7-365 days	25	[ICRA]A1+

Source: NCFSL

Annexure-2: List of entities considered for consolidation: Not applicable

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