

August 31, 2020

## 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	25.0	25.0	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>25.0</b>	<b>25.0</b>	

\*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 97.9%, and liquid investments of about Rs. 167 crore as of March 31, 2020. 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. While reaffirming the rating, ICRA continues to take note that NCFSL's earning profile is exposed to the inherent volatility associated with capital markets, given the nature of its business. However, the risk is somewhat mitigated due to the fact that the company's investments is well-diversified among various Financial instruments like mutual funds (both debt and equity), debentures and equity shares, Real Estate Alternate Investment Funds, increased allocation in equity through Portfolio Fund Managers, Private Equity Funds, Global Equity Funds, Gold/Commodity Funds etc. ICRA also notes that 36% of NCFSL's assets are invested in the various Nahar group companies (Rs 233 cr) and thus the performance of those underlying companies would have a bearing on the credit profile of NCFSL. 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 upon debt over the years. As on March 31, 2020, the capitalization level stood comfortable with a gearing of 0.01x and a capital adequacy ratio of 97.9%. Even going forward, the company plans to keep its borrowing base limited with an overall gearing of less than 0.1x. The company's liquidity profile also stood healthy as of March 31, 2020 with sizeable surplus liquid investments of about Rs. 167 crore compared with total borrowings of about Rs. 4 crore. ICRA also takes comfort from the company's stated intent to keep the total borrowings below Rs. 70 crore over the medium term.

**Financial flexibility supported 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+(Negative)/[ICRA]A2+), and Nahar Poly Films Limited. The shared brand name along with the common senior management augurs well for the financial flexibility of the entity. At the same time, ICRA also notes that 36% of NCFSL's assets are invested in the various Nahar group companies (Rs 233 cr) and thus the performance of those underlying companies would have a bearing on the credit profile of NCFSL

## Credit challenges

**Low diversification in business revenues and exposure to market risk** – NCFSL’s revenue profile remains concentrated towards the income generated from capital market segments in the form of income from the sale of investments (23% in FY2020) and dividend income (26%). 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 Alternate Investment Funds, Private Equity Funds, Global Equity Funds, Gold/Commodity Funds etc., which is expected to limit losses in a depressed market scenario.

Company’s profitability remained modest with return on average equity of 2.1% in FY2020 (vs. 1.6% in FY2019). Lower gain on sale of investments lead to 18% yoy decline in revenues. This along with 25% yoy increase in operating expenses lead to decline in profit before tax to Rs 13.2 cr in FY2020 (vs. Rs 14.9 cr in FY2019). However, PAT grew by 24% yoy to Rs 14.6 cr in FY2020 due to reduced taxation.

## Liquidity position: Strong

The company’s liquidity profile stood healthy as of March 31, 2020 with sizeable surplus liquid investments of about Rs. 167 crore compared with total borrowings of about Rs. 4 crore (overdraft limit), sanctioned overdraft limits of Rs. 50 crore and no borrowings in the form of commercial paper.

Rating sensitivities

**Positive triggers** – Not applicable.

**Negative triggers** – The rating could be revised downwards if there is significant deterioration in the liquidity profile of the company. The ratings could also be under pressure if there is 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	<a href="#">ICRA’s Credit Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	-
Consolidation / Standalone	Standalone

## About the company

Incorporated in March 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 (~42% of the investments as on March 31, 2020), investments in mutual funds (~21%), preference shares (~9%), listed equity shares (13%), bonds and AIF funds (7%) 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 Limited, Nahar Spinning Mills Limited, Nahar Industrial Enterprises Limited and Nahar Poly Films Limited.

NCFSL reported a profit after tax (PAT) of Rs. 14.63 crore in FY2020 on an asset base of Rs. 649 crore as on March 31, 2020 as against a PAT of Rs. 11.80 crore in FY2019 on an asset base of Rs. 772 crore as of March 31, 2019.

### Key financial indicators (audited)- NCFSL (Standalone)

	FY2018	FY2019	FY2020
PAT	<b>19</b>	<b>12</b>	<b>15</b>
Net Worth	733	756	635
Gross Loan book	1	1	27
Investments	726	724	559
Total Assets	755	772	649
Return on Average Assets	2.9%	1.5%	2.1%
Return on Average Equity	<b>3.0%</b>	<b>1.6%</b>	<b>2.1%</b>
Gearing (times)	0.02	0.01	0.01
CRAR	90.7%	95.5%	97.9%
Gross NPA%	100.0%	100.0%	0.0%
Net NPAs %	100.0%	100.0%	0.0%
Net NPA/ Net worth %	0.1%	0.1%	0.0%

*Note: Amounts in Rs. Crore, Source: NCFSL*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated/ to be Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2018	Date & Rating in FY2017	
					31 Aug-20	07 May-19	30 Mar-18	09 Mar-17	
1	Commercial Paper Programme	ST	25.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

### 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 [click here](#)

### Annexure-1: Instrument Details

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

Source: Company

### Annexure-2: List of entities considered for consolidated analysis – Not applicable

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