

**Rating Rationale**

August 28, 2023 | Mumbai

**N R Agarwal Industries Limited***Rating placed on 'Watch Developing'***Rating Action****Rs.50 Crore Commercial Paper****CRISIL A1/Watch Developing (Placed on 'Rating Watch with Developing Implications')**

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*1 crore = 10 million**Refer to Annexure for Details of Instruments & Bank Facilities***Detailed Rationale**

CRISIL Ratings has placed its short term rating on the commercial paper of N R Agarwal Industries Limited (NRAIL) on 'Rating Watch with Developing Implications'.

The rating action follows the recent announcement regarding the closure notice received by the company for its manufacturing unit V located in Sarigam, Gujrat from the Gujrat Pollution Control Board due to non-adherence with the pollution's norms. This facility currently accounts for approximately 35% of its capacity, however, NRAIL is under process to comply with the requirements of the Gujrat Pollution Control Board and do not expect any material impact on its operations. . The Rating Watch will get resolved once CRISIL Ratings gets adequate clarity on the potential closure of the facility and its impact on the company's overall credit risk profile.

The rating continues to reflect NRAIL's established market position in the paper industry marked by longstanding relations with customers, the extensive industry experience of its promoters, healthy financial profile marked by and efficient working capital cycle. These strengths are partially offset by exposure to risks related to cyclical in the paper industry, volatility in operating margin due to input prices and large, planned capital expenditure (capex).

**Key Rating Drivers & Detailed Description****Strengths:**

**Established market position in the paper industry:** NRAIL has a strong market position marked by strong track record of operations, longstanding relations with majority of its customers and enhanced manufacturing capacities of 180000 MT per annum and 108000 MT per annum for duplex and writing & printing paper respectively. The company has a diversified customer base with top 10 customers account for less than 30% of revenue. The company caters to both domestic and export markets with exports accounting for 20-25% of revenue. The scale has increased to around Rs 1760-1770 crore in fiscal 2023 from Rs 1617 crore in fiscal 2022 and is expected to augment further with expansion in capacity and healthy demand for products over the medium term.

**Extensive industry experience of the promoters:** The promoters' have an experience of nearly three decades in paper manufacturing industry which has provided them an understanding of the dynamics of the market and have established healthy relationships with suppliers and customers which should continue to support the business.

**Healthy financial risk profile:** Network was strong and total outside liabilities to adjusted network (TOLANW) ratio low at around Rs. 620-630 crore and 0.6-0.7 times respectively as on March 31, 2023 (as compared to Rs 524.9 crore and 0.89 time, a year ago). The capital structure has been healthy due to low reliance on external funds and steady accretion to reserve. Despite, the on-going expansion in the manufacturing facility at an estimated cost of Rs 650 crore, which is aggressively funded in a debt-equity ratio of 1.89 times, NRAIL's capital structure is expected to remain comfortable over the medium term. Debt protection measures have also been adequate due to moderate leverage and healthy profitability. The interest coverage and net cash accrual to total debt ratios were around 14-14.5 times and 0.8-0.85 times respectively in fiscal 2023 (as compared to 6.1 times and 0.66 time, respectively, for fiscal 2022). Debt protection measures are expected to weaken slightly on account of higher debt levels but remain comfortable over the medium term.

**Efficient working capital cycle:** Gross current assets were at around 82 days as on March 31, 2023, driven by average debtors and inventory of 29 and 30 days, respectively. The company extends moderate credit period to customers and has been able to receive timely payments from them. Inventory requirement is average as raw materials are procured easily. The working capital cycle is expected to remain stable over the medium term.

**Weakness:**

**Exposure to cyclical in the paper industry:** The long gestation period in capacity addition among other factors, make the paper industry inherently cyclical. Demand for paper is also linked to the level of economic activity. Hence, cyclical downturns or adverse variability in the demand-supply balance may result in volatility in realisations. Furthermore, the risk to pass on the increase in raw materials prices to end customers, amidst demand-supply dynamics, would remain a key monitorable.

**Susceptibility to volatility in waste-paper prices:** Wastepaper, the key input, accounts for 65-70% of NRAIL's total raw material costs. Price of wastepaper, which is a commoditised product, tends to fluctuate sharply and adversely affects profitability of paper manufacturers. The other key input for the entity is coal, which is largely imported and is also volatile. Operating margin has hence remained volatile in range of 9.5%-15.6% over past four fiscals ended March 2023. Sustainance of operating margin would remain a key monitorable.

**Risks related to large, planned capex:** The company is undertaking capacity expansion at a cost of Rs 650 crore, which is being funded through a term loan of Rs 425 crore and internal accruals. Timely completion and stabilisation of the new manufacturing facility is critical and would remain a key rating sensitivity factor.

**Liquidity: Strong**

Expected cash accrual of Rs125-150 crore is sufficient against term debt obligation of Rs 6 crore and Rs 21 crore in fiscals 2024 and 2025, respectively, and the surplus will support liquidity. Further capex is partially funded through debt, repayments of which would commence from fiscal 2025. Current ratio was healthy at 2.6 times on March 31, 2023 while cash and bank balance was around Rs 50 crore. Low gearing and moderate network support the financial flexibility of the company.

**Rating Sensitivity factors****Upward factors**

- Increase in revenue and operating margin above 11%, leading to higher cash accruals
- Timely stabilisation of new manufacturing unit
- Sustenance of financial profile and working capital cycle

**Downward factors**

- Decline in scale of operations leading to fall in revenue or operating margin below 9% resulting in lower cash accruals
- Further large debt-funded capex weakens capital structure and liquidity

**About the Company**

NRAIL was incorporated in 1993 by Late Mr N R Agarwal. It is currently headed by Mr Rajendra N Agarwal as Chairman and Managing Director. The company is listed on the National Stock Exchange and Bombay Stock Exchange.

NRAIL is engaged in the business of manufacturing various duplex paper boards, writing, printing paper. The company has four facilities located at Vapi and Sarigam, both in Gujarat. Also, it has a 26.65-megawatt captive co-generation power plant. Further, it is setting up a new manufacturing plant at Sarigam to increase the total installed capacity. The plant is expected to be commissioned in October 2023.

**Key Financial Indicators**

As on/for the period ended March 31	Unit	2022	2021
Operating income	Rs.Crore	1616.5	1145.6
Reported profit after tax (PAT)	Rs.Crore	61.02	57.23
PAT margin	%	3.77	5.00
Adjusted debt/Adjusted networkth	Times	0.27	0.36
Interest coverage	Times	6.12	4.65

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7-365 Days	50	Simple	CRISIL A1/Watch Developing

**Annexure - Rating History for last 3 Years**

Current				2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	50.0	CRISIL A1/Watch Developing		--	25-11-22	CRISIL A1		--		--	--

All amounts are in Rs.Cr.

## Criteria Details

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">Rating Criteria for Paper Industry</a>

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