April 04, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	7.00 (enhanced from Rs.5.50 crore)	SMERA BBB-/Stable (upgraded from SMERA BB+/Positive)
Term Loan	4.00*	SMERA BBB-/Stable (Assigned)
Letter of Credit/Letter of Guarantee	15.00 (enhanced from Rs.5.50 crore)	SMERA A3 (upgraded from SMERA A4+)
Letter of Credit	2.00 (enhanced from Rs.0.50 crore)	SMERA A3 (upgraded from SMERA A4+)

**Includes letter of credit (for purchase of machinery) as sublimit to the extent of Rs 2.00 crore*

SMERA has assigned rating of **'SMERA BBB-' (read as SMERA triple B minus)** to the Rs.4.00 crore bank facilities and upgraded ratings on the Rs.24.00 crore bank facilities (enhanced from Rs.11.50 crore) of Nirmal Fibres Private Limited (NFPL) to **'SMERA BBB-' (read as SMERA triple B minus) and 'SMERA A3' (read as SMERA A three)** from 'SMERA BB+/SMERA A4+'. SMERA has also revised NFPL's rating outlook (on the long-term bank facilities) to **'Stable'** from 'Positive'.

The rating upgrade reflects the healthy increase in scale of operations and improvement in financial risk profile of the company. NFPL registered revenue growth of ~47 per cent in FY2012–13 (refers to financial year, April 01 to March 31) on the back of increase in trading of coal and capacity expansion (from 7,000 tonnes per annum to 9,600 tonnes per annum) in its main product offering viz. Recycled Polyester Staple Fibre (RPSF). The company's gearing (debt-to-equity ratio) has improved from 0.81 times as on March 31, 2012 to 0.60 times as on March 31, 2013 on account of healthy accretion to reserves in FY2012–13. NFPL's interest coverage ratio is strong at 8.18 times in FY2012–13. SMERA believes that NFPL will be able to maintain its financial risk profile at a comfortable level despite the debt funded capex undertaken in FY2013–14 and stagnant revenue growth expected in FY2013–14. The company's ability to operate at high capacity utilisation levels is a key rating sensitivity.

NFPL's ratings continue to draw comfort from the company's long track record of operations (in the RPSF segment) and experienced management. However, the ratings are constrained by the susceptibility of the company's profit margins to raw material price volatility. NFPL's profitability is also susceptible to changes in revenue mix arising from increased contribution of trading income.

Update

For FY2012–13, NFPL registered net profit of Rs.3.29 crore on operating income of Rs.144.98 crore, as compared with net profit of Rs.2.04 crore on operating income of Rs.98.36 crore for FY2011–12. Further, the company reported operating income of Rs.113.80 crore (provisional) during April 2013 to December 2013. NFPL's revenues share from coal trading activity increased from ~32 per cent in FY2011–12 to ~43 per cent in FY2012–13. However, the company's revenue share from trading activity has declined to ~37 per cent (as per provisional financials) during April 2013 to December 2013. The company's manufacturing revenues have increased from Rs.66.14 crore in FY2011–12 to Rs.82.35 crore in FY2012–13, mainly due to higher offtake of RPSF post capacity expansion.

NFPL is utilising ~84 per cent of its installed capacity for RPSF. The company is in the process of increasing its RPSF production capacity from 9,600 tonnes per annum (TPA) to 12,600 TPA. The ongoing capex is partially debt funded. NFPL has utilised Rs.1.75 crore of the total sanctioned term loan of Rs.4.00 crore till date. The commercial operations at the new line are likely to start in April 2014. NFPL has maintained comfortable working capital cycle of 50–60 days during the past five years. The company's sound liquidity position is evidenced by low average utilisation (67 per cent) of working capital limit during August 2013 to January 2014.

NFPL's operating profit margins are susceptible to fluctuations in prices of raw materials, which include PET bottles and scrap. The company's profitability is also susceptible to changes in revenue mix arising from increased contribution of trading income. NFPL has written off bad debts of Rs.3.16 crore (arising from trading operations) in FY2012–13. The company's operating profit margin declined from 5.04 per cent in FY2011–12 to 4.64 per cent in FY2012–13.

Outlook: Stable

SMERA believes NFPL will continue to benefit over the medium term from its experienced management and established presence in the RPSF segment. The outlook may be revised to 'Positive' in case the company achieves substantial improvement in its scale of operations while maintaining operating profit margin and coverage indicators at comfortable levels. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve scalability amidst intensifying competition in its areas of operation, or in case of deterioration in the company's financial risk profile.

About the company

NFPL, incorporated in 1995, is a Delhi-based company engaged in manufacturing of RPSF and PPNF (Polypropylene Non Woven Fabric). NFPL is also involved in trading of coal. The company has a manufacturing facility in Gajraula, Uttar Pradesh. The overall operations of the company are jointly managed by Mr. Ajit Prasad Jain, Mr. Raj Kumar Jain and Mr. Sanjiv Kumar Jain.

NFPL's net worth stood at Rs.16.74 crore as on March 31, 2013, as compared with Rs.13.46 crore a year earlier.

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