

March 03, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	7.00	SMERA BBB/Stable (upgraded from SMERA BBB-/Stable)
Term Loan	4.00	SMERA BBB/Stable (upgraded from SMERA BBB-/Stable)
Letter of Credit/Letter of Guarantee	15.00	SMERA A3+ (upgraded from SMERA A3)
Letter of Credit	2.00	SMERA A3+ (upgraded from SMERA A3)

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

SMERA has upgraded the ratings of Nirmal Fibres Private Limited (NFPL) to '**SMERA BBB/Stable/SMERA A3+**' from '**SMERA BBB-/Stable/SMERA A3**'. The outlook is '**Stable**'.

The upgrade is in view of growth in scale of operations and improvement in profit margins and financial risk profile of the company. The ratings continue to draw comfort from the company's long track record of operations and experienced management. However, the ratings are constrained by the susceptibility of the company's profit margins to volatility in raw material prices and changes in revenue mix.

Update

NFPL's revenues increased from Rs.144.91 crore in FY2012-13 (refers to financial year, April 01 to March 31) to Rs.155.99 crore in FY2013-14 on the back of increase in offtake of recycled polyester staple fibre (RPSF). The company has augmented its RPSF production capacity from 9,600 tonnes per annum to 13,200 tonnes per annum. NFPL registered revenue of Rs.71.88 crore from sale of RPSF during April 2014 to December 2014, as compared with revenue of Rs.56.72 crore for the corresponding period of the previous year. The company's net worth stood at Rs.21.06 crore as on March 31, 2014, as compared with Rs.16.74 crore a year earlier.

NFPL's revenue share from coal trading declined from 41.40 per cent in FY2012-13 to 36.39 per cent in FY2013-14 and further to 10.20 per cent for the nine months ended December 2014. SMERA believes NFPL's overall revenues may decline by ~20 per cent in FY2014-15 on account of reduction in trading income. NFPL's operating margin improved from 4.59 per cent in FY2012-13 to 5.21 per cent in FY2013-14 and 6.41 per cent for the nine months ended December 2014 on account of increase in share of manufacturing income.

NFPL's utilisation of RPSF production capacity stood at ~80 per cent for the nine months ended December 2014. The company is undertaking capex of Rs.4.00 crore for setting up new capacity for manufacturing fine denier RPSF, which is used in production of yarn. The new capacity (4,800

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tonnes per annum) will be operational by July 2015. The project cost is likely to be funded through term loan of Rs.1.50 crore and internal accruals of Rs.2.50 crore.

NFPL's gearing (debt-equity ratio) has improved from 0.60 times as on March 31, 2013 to 0.46 times as on March 31, 2014 on account of healthy accretion to reserves. The company's interest coverage ratio is strong at 6.98 times in FY2013-14. NFPL has maintained comfortable working capital cycle of 50-60 days during the past five years. The company's sound liquidity position is reflected in comfortable average utilisation (81 per cent) of working capital limit during July 2014 to December 2014. SMERA believes NFPL will maintain a comfortable financial risk profile despite the debt-funded capex and expected decline in revenues.

NFPL's profit margins are susceptible to fluctuations in prices of various raw materials such as plastic bottles and scrap. The company's profitability is also susceptible to changes in revenue mix arising on account of increase in share of trading income.

Outlook: Stable

SMERA believes NFPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established presence in the RPSF segment. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations while maintaining comfortable operating margins and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability amidst intensifying competition in its area of operations, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements. The company's ability to increase its capacity utilisation level is a key rating sensitivity.

About the company

NFPL, incorporated in 1995, is a Delhi-based company engaged in manufacturing of recycled polyester staple fibre (RPSF) and polypropylene non-woven fabric (PPNF). NFPL is also engaged in trading of coal. The company has a manufacturing facility in Gajraula, Uttar Pradesh. The overall operations of the company are managed by Mr. Ajit Prasad Jain, Mr. Raj Kumar Jain and Mr. Sanjiv Kumar Jain.

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