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CIN No. : L17115PB1980PLC004341 GST No. : 03AAACN5710D1Z6

NSML/SD/2021/

April 02, 2021

1. The National Stock Exchange of India Limited  
Exchange Plaza, 5th Floor, Plot No. C/1, G-Block  
Bandra-Kurla Complex, Bandra (E)  
**MUMBAI – 400 051**
2. The BSE Limited  
25th Floor, P.J. Tower,  
Dalal Street, Mumbai  
**MUMBAI – 400 001**

**SUB: INTIMATION OF REVISION IN CREDIT RATING**

Dear Sir,

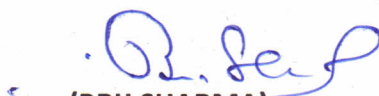
Pursuant to the provisions of Regulation 30(3) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("the Regulations"), we would like to inform you that the CRISIL vide its mail dated March 31, 2021 has intimated that the Company's rating outlook on the long term bank facilities has been revised to 'Stable' from 'Negative' while reaffirming the rating at 'CRISIL A-'. The rating on the short-term bank facility has been reaffirmed at 'CRISIL A2+'.

Copy of mail is attached herewith.

This is for your information and record.

Thanking you,

Yours faithfully,  
For NAHAR SPINNING MILLS LTD.

  
(BRIJ SHARMA)  
COMPANY SECRETARY

**Rating rationale**  
**Nahar Spinning Mills Ltd**  
*Outlook revised to 'Stable'; ratings reaffirmed*

**Rating action**

|   |  |
|---|--|
| <b>Total bank loan facilities rated</b> | <b>Rs 1,508.4 crore</b>  |
| <b>Long-term rating</b>                 | <b>CRISIL A-/Stable (outlook revised from 'Negative'; rating reaffirmed)</b> |
| <b>Short-term rating</b>                | <b>CRISIL A2+ (reaffirmed)</b>   |

*(Refer Annexure for facility details)*

|                                       |                                |
|---------------------------------------|--------------------------------|
| <b>Rs 23.5 crore commercial paper</b> | <b>CRISIL A2+ (reaffirmed)</b> |
|---------------------------------------|--------------------------------|

*1 crore = 10 million*

*Refer Annexure for details of instruments and bank facilities*

**Detailed rationale**

CRISIL Ratings has revised its outlook on the long-term bank facilities of Nahar Spinning Mills Ltd (Nahar) to 'Stable' from 'Negative' while reaffirming the rating at 'CRISIL A-'. The rating on the short-term bank facility has been reaffirmed at 'CRISIL A2+'.

The outlook revision reflects the expected sustained improvement in operating performance in fiscal 2022 because of healthy demand for cotton yarn from domestic and export markets and recovery in profitability amid high cotton-yarn spreads and moderate capacity utilisation. Performance recovered in the second half of fiscal 2021 driven by increasing export demand of yarn from China and Bangladesh, resulting in revenue growing by 54% over the first half. Furthermore, higher surge in yarn realisations against cotton prices has led to increase in cotton-yarn spreads from Rs 84/kg in fiscal 2020 to over Rs 95-100/kg in fiscal 2021. Revenue is expected to grow 15-20% year-on-year while operating margin is expected to sustain at 7-8% given sustenance of healthy demand and high cotton-yarn spreads in fiscal 2022.

With improving profitability, debt protection metrics are expected to recover, with interest coverage and net cash accrual to adjusted debt ratios expected at 3-3.5 times and 13-15%, respectively, in fiscal 2022, from 2.7 times and 11%, respectively, estimated for fiscal 2021. Adjusted gearing is expected to decline below 1 time as on March 31, 2022, from an estimated 1.01 times as on March 31, 2021, because of nil major capital expenditure (capex) plans over the medium term.

Liquidity was adequate, with low bank limit utilisation of 77% on average (unutilised bank lines of Rs 190-200 crore) for the 12 months through February 2021 and availability of need-based support from Nahar Capital and Financial Services Ltd (Nahar Capital), which had investments of over Rs 870 crore as on September 30, 2020.

The ratings continue to reflect the company's established position in the cotton yarn and knitted garments segments, large scale of operations with moderate integration and healthy financial flexibility. These strengths are partially offset by susceptibility to volatility in raw material prices and foreign exchange (forex) rates, subdued operating efficiency and large working capital requirement.

**Analytical approach: Not applicable**

## **Key rating drivers and detailed description**

### **Strengths**

**Established position in the cotton yarn and knitted garments segments:** Nahar is one of India's largest cotton yarn manufacturers and a leading manufacturer and exporter of knitted garments, with revenue estimated over Rs 1,900 crore in fiscal 2021. The company is also one of the top 10 spinners in the domestic market. It has an established position in several export markets such as Bangladesh, China, Egypt and Vietnam. Domestic clients include many large, reputed home textile and denim manufacturers. The company also has longstanding relationships with international garment retailers in the US and Canada, and thus, benefits from the diversified geographic reach. In fiscals 2020 and 2021, export demand moderated due to decline in demand from China, ban on exports to Pakistan, reduced competitiveness of Indian spinners in the global market due to higher domestic cotton prices compared with global prices and supply disruptions owing to Covid-19. Performance is likely to recover in fiscal 2022 as demand for Indian cotton yarn continues to be high.

**Large scale of operations and moderate integration:** The company consumes over 400,000 bales of cotton every year, and therefore, is one of the largest buyers of cotton in India. Large-scale procurement will keep bargaining power high over the medium term. Operations are partially forward integrated, with presence in the knitted garments segment, supporting operating efficiency. The company is focusing on de-risking its exposure on cotton yarn products and emphasizing on value-added yarns such as cotton melange, organic yarn and multi-twist yarn, which fetch higher margins. The share of value-added products was 45% in the first half of fiscal 2021.

### **Improving financial risk profile and healthy financial flexibility:**

Gearing is expected below 1.2 times in fiscals 2021 and 2022. Adjusted interest coverage ratio was moderate at 1.04 times in fiscal 2020 due to lower profitability, but is expected at 2.5-3 times in fiscal 2021 driven by improving cotton-yarn spreads and healthy capacity utilisation. Financial flexibility was healthy, as reflected in moderate bank limit utilisation of 77% over the 12 months through February 2021. Moreover, Nahar Capital had investments of over Rs 870 crore (including investments in group companies) as of September 2020, which can be liquidated and infused into Nahar, if needed.

Adequate liquidity and comfortable financial flexibility will continue to support debt obligation. Also, the company does not have any major capex plans over the medium term.

### **Weaknesses**

**Susceptibility to volatility in raw material prices and forex rates:** The company derives over 90% of total revenue from the yarn segment, which is susceptible to volatility in cotton and cotton yarn prices. As a result, the operating margin fluctuated between 1% and 21% over the past 10 fiscals through 2021. Demand for cotton and yarn is driven by international demand-supply dynamics. In the past decade, the industry has seen five cycles (fiscals 2012, 2015, 2018, 2020 and 2021) wherein demand spiralled and then fell rapidly. Additionally, as Nahar derives close to two-thirds of its revenue from the overseas markets, it is susceptible to any significant volatility in forex rates.

### **Modest operating efficiency, and large working capital requirement:**

Operating efficiency is lower than other players owing to the product mix and higher export-oriented nature of products. This has resulted in high volatility in operating margin, ranging from 1-22% in the past decade. The return on capital employed was weak at negative 0.1% to 14%.

Operations are working capital intensive (gross current assets estimated at 205 days as on March 31, 2021), driven by seasonal production of cotton, leading to high reliance on debt. Although the cotton

procurement policy has been changed to maintain lower inventory, working capital loans remain sizeable which along with lower profitability constrain the debt protection metrics.

**Outlook: Stable**

CRISIL Ratings believes Nahar will, over the medium term, maintain its strong market position and continue to benefit from its integrated operations given the favourable outlook on the cotton yarn industry.

**Rating sensitivity factors**

**Upward factors:**

- Steady recovery in operating performance and rise in earnings before interest, tax, depreciation and amortisation (EBITDA) margin to 7-8%
- Higher cash accrual along with prudent working capital management and capital spending, benefitting the credit metrics, with total outside liabilities to tangible network (TOLTNW) ratio below 1.2 times and interest coverage ratio above 3.5-4 times

**Downward factors:**

- Continued weak operating performance, resulting in cash loss
- Lower cash accrual along with stretched working capital cycle and increased capex, leading to the TOLTNW ratio increasing over 2.5 times and interest coverage ratio of less than 1.5 times

**Liquidity: Adequate**

Unutilised bank lines stood at Rs 190-200 crore in February 2021 (bank limit utilisation averaged 77% for the 12 months through February 2021). Expected net cash accrual of over Rs 100 crore per annum will sufficiently cover debt obligation of Rs 22 crore and Rs 32 crore in fiscals 2022 and 2023, respectively. Debt obligation is expected at Rs 50 crore in fiscal 2022 due to Covid-19 loans taken in fiscal 2021. The company has nil major capex plans and is focusing on increasing capacity utilisation. Furthermore, Nahar Capital, which had investments of over Rs 870 crore (including investments in group companies) as on September 30, 2020, will extend need-based support.

**About the company**

Nahar is the flagship company of the Nahar group, a business conglomerate that operates in the spinning, garments and hosiery segments. After the group was restructured in fiscal 2007, Nahar acquired the entire textile business of the erstwhile Nahar Exports Ltd, while the group company and other investments were transferred to a new company, Nahar Capital.

The company has manufacturing units at Ludhiana, Jitwal Kalan, Jodhan and Lalru in Punjab, and at Raisen and Mandideep in Madhya Pradesh. It undertakes spinning, mercerising-cum-dyeing, knitting and garmenting activities. Moreover, it has two co-generation power plants in Ludhiana and Lalru, with capacities of 3.8 MW and 4.8 MW, respectively. The company also has solar power stations of 0.81 MW and 0.78 MW at Jodhan and Lalru, respectively, and is in the process of installing a 1.3 MW solar power station at Mandideep.

For the nine months ended December 31, 2020, the company generated loss after tax of Rs 22 crore on sales of Rs 1,385 crore, against loss of Rs 40 crore on sales of Rs 1,518 crore during the corresponding period of the previous fiscal.

**Key financial indicators:**

| As on / for the period ended March 31 | 2020 | 2019 |
|---------------------------------------|------|------|
|---------------------------------------|------|------|

|                                    |          |       |       |
|------------------------------------|----------|-------|-------|
| Revenue                            | Rs crore | 2,084 | 2,308 |
| PAT                                | Rs crore | -52   | 65    |
| PAT margin                         | %        | -2.5  | 2.8   |
| Adjusted debt / adjusted networkth | Times    | 1.13  | 1.01  |
| Interest coverage                  | Times    | 1.04  | 4.13  |

*\*provisional*

#### Annexure - Details of instruments

| ISIN | Name of instrument                    | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity levels | Rating assigned with outlook |
|------|---------------------------------------|-------------------|-----------------|---------------|-----------------------|-------------------|------------------------------|
| NA   | Term loan                             | NA                | NA              | Jun 2024      | 20.93                 | NA                | CRISIL A-/Stable             |
| NA   | Term loan                             | NA                | NA              | Sep-20        | 21.53                 | NA                | CRISIL A-/Stable             |
| NA   | Term loan                             | NA                | NA              | Sep'2023      | 27.72                 | NA                | CRISIL A-/Stable             |
| NA   | Cash credit*                          | NA                | NA              | NA            | 1000                  | NA                | CRISIL A-/Stable             |
| NA   | Letter of credit#                     | NA                | NA              | NA            | 165                   | NA                | CRISIL A2+                   |
| NA   | Proposed term loan                    | NA                | NA              | NA            | 27.83                 | NA                | CRISIL A-/Stable             |
| NA   | Proposed long-term bank loan facility | NA                | NA              | NA            | 22.39                 | NA                | CRISIL A-/Stable             |
| NA   | Term loan                             | NA                | NA              | Mar 2027      | 114                   | NA                | CRISIL A-/Stable             |
| NA   | Term loan                             | NA                | NA              | Mar 2025      | 109                   | NA                | CRISIL A-/Stable             |
| NA   | Commercial paper                      | NA                | NA              | 7 to 365 days | 23.5                  | Simple            | CRISIL A2+                   |

*\*Interchangeable with packing credit foreign currency / overdraft*

*#Interchangeable with bank guarantee / buyer's credit*

#### Annexure - Details of facilities

| Current facilities                    |                   |                  | Previous facilities                   |                   |                    |
|---------------------------------------|-------------------|------------------|---------------------------------------|-------------------|--------------------|
| Facility                              | Amount (Rs crore) | Rating           | Facility                              | Amount (Rs crore) | Rating             |
| Cash credit*                          | 1000              | CRISIL A-/Stable | Cash credit*                          | 1000              | CRISIL A-/Negative |
| Letter of credit#                     | 165               | CRISIL A2+       | Letter of credit#                     | 165               | CRISIL A2+         |
| Proposed term loan                    | 27.83             | CRISIL A-/Stable | Proposed term loan                    | 27.83             | CRISIL A-/Negative |
| Term loan                             | 293.18            | CRISIL A-/Stable | Term loan                             | 293.18            | CRISIL A-/Negative |
| Proposed long-term bank loan facility | 22.39             | CRISIL A-/Stable | Proposed long-term bank loan facility | 22.39             | CRISIL A-/Negative |
| <b>Total</b>                          | <b>1508.4</b>     | <b>--</b>        | <b>Total</b>                          | <b>1508.4</b>     | <b>--</b>          |

*\*Interchangeable with packing credit foreign currency / overdraft*

*#Interchangeable with bank guarantee / buyer's credit*