

## Rating Rationale

November 04, 2022 | Mumbai

### Nath Industries Limited

*Ratings reaffirmed at 'CRISIL BBB+/Stable/CRISIL A2'; Rated amount enhanced for Bank Debt*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.89.26 Crore (Enhanced from Rs.47.63 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL BBB+/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A2 (Reaffirmed)</b>

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB+/Stable/CRISIL A2' ratings on the bank facilities of Nath Industries Limited (Nath; formerly, Rama Pulp and Papers Ltd).

The revenue of Nath rose 44.5% to Rs 421 crore in fiscal 2022 from Rs 292 crore in fiscal 2021 on account of 39% increase in realisation and 5% growth in volume following revival in demand. However, operating margin declined to 6.4% from 10.4% largely because of higher freight cost and prices of raw materials such as wastepaper, chemicals and coal, which the company was unable to pass on entirely to customers. Revenue is expected to grow 10% in fiscal 2023 driven by continued high realisation and increase in volume. Raw material prices are also likely to continue increasing, keeping operating margin at 6-8%.

The company is undertaking capital expenditure (capex) for increasing capacity of the chemicals division from 280 tonne per day (TPD) to 500 TPD, and has enhanced paper capacity to 28,800 tonne per annum (TPA) from 21,600 TPA. Also, ongoing capex for installing high pressure boiler with 2 megawatt (MW) back pressure steam turbine for paper and upgrade of existing turbine from 2MW to 3.3MW for chemicals should help save on electricity cost, thereby improving the operating margin.

The financial risk profile is expected to remain adequate with increase in scale of operations leading to higher cash accrual which will be sufficient to service debt availed for capex. Debt protection metrics will remain stable—the interest coverage reduced to 5.8 times in fiscal 2022 from 9.4 times in fiscal 2021 and is expected at a similar level for fiscal 2023 while the net cash accrual to total debt ratio remained around 0.3 time but is expected to reduce to around 0.2 time over the medium term owing to additional debt for capex. Networth was adequate at Rs 244 crore and gearing healthy at 0.31 time as on March 31, 2022. The gearing is expected to remain under 0.5 time over the medium term despite additional debt of Rs 35 crore for capex and Rs 7.7 crore loan under the Guaranteed Emergency Credit Line (GECL). Unutilised bank line of Rs 12 crore and expected accrual of Rs 20-25 crore will cover debt obligation, capex and incremental working capital requirement. Of the total capex of Rs 53.6 crore, the State Bank of India (SBI) has sanctioned debt of Rs 35 crore and the balance will be funded through internal accrual. As of September 2022, the company had availed around Rs 15 crore of the sanctioned term loan.

The ratings continue to reflect the diversified revenue profile of the company, its longstanding market presence and adequate financial risk profile. These strengths are partially offset by susceptibility to volatility in input prices and demand cyclicity.

#### Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of Nath.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Diversified revenue profile:** Nath derives about 75% of its revenue from the paper division and the balance from the chemicals division. Within the paper business, the company has diverse product offerings—laminates and absorbent paper, speciality paper and core board paper. In the chemicals segment, products include sulphuric acid, sulphur dioxide, oleum and chlorosulphuric acid. The company caters to diverse industries such as textiles, banking (ATM rolls) and pharmaceuticals, and is focusing on exports to improve geographical diversification.
- **Longstanding market presence:** The company has a leading position in certain niche segments and longstanding client relationships. It is a leader in tube grade paper and thermal paper used in automated teller machine (ATM) slips,

and among the few players in the absorbent paper segment. In the chemical business, it has an established market position in sulphur dioxide, sulphuric acid and oleum, with customer relationships of over two decades.

- **Adequate financial risk profile:** The financial risk profile should remain adequate over the medium term. Networth increased to Rs 244 crore as on March 31, 2022, from Rs 230 crore as on March 31, 2021. The total debt of Rs 76 crore comprises interest-free sales tax loans from the government of Rs 35 crore and working capital loan of Rs 10 crore, with long-term loan accounting for the balance. The company is setting up a co-generation plant for the paper division at an estimated cost of Rs 19.10 crore to be funded through debt of Rs 12.5 crore and cash accrual. It is upgrading the chemical plant and turbine at an expected cost of Rs 34.5 crore of which Rs 22.50 crore will be funded through debt and Rs 12 crore through internal accrual. The SBI has sanctioned term loan of Rs 35 crore for the capex. Expected annual accrual of Rs 20-25 crore will be sufficient to fund the balance capex along with debt obligation of Rs 10-12 crore and increased working capital requirement.

#### **Weaknesses:**

- **Susceptibility to volatility in input prices:** Nath uses waste paper to produce laminate paper and special grade paper. Waste paper prices are highly volatile as they are driven by the global demand-supply scenario. As the company imports a large part of its requirement, the operating margin is also vulnerable to fluctuations in foreign exchange rates. However, Nath has largely maintained its operating margin by passing on increase in waste paper prices to customers. Sulphur and chlorine are key inputs for the chemical business, prices of which are also volatile.
- **Vulnerability to demand cyclicality:** In the paper segment, the company derives sizeable revenue from laminate grade paper used in the real estate industry. Cyclicity in the end-user industry impacts demand, though this is mitigated by diversity in product profile. Profitability remains constrained by the commoditised nature of paper and linear alkyl benzene sulfonic acid (LABSA). While Nath does partly pass on price variation, any steep downturn or adverse change in demand-supply balance may result in lower realisations, thereby affecting profitability.

#### **Liquidity: Adequate**

Cash accrual is expected at Rs 20-25 crore in fiscal 2023 and is expected to rise to Rs 30-35 crore in fiscal 2024 against yearly debt obligation of Rs 10-12 crore. Capex will be funded through debt of Rs 35 crore and through internal accrual. Fund-based limit was utilised 69% on average during the 12 months through August 2022. Internal accrual and unutilised bank limit would be largely sufficient to meet debt obligation as well as incremental working capital requirement.

#### **Outlook: Stable**

Nath will continue to benefit from its diversified product profile, established market position, increasing scale of operations and operational synergies. The financial risk profile should remain comfortable, supported by steady cash accrual, moderate capex and prudent working capital management.

#### **Rating Sensitivity factors**

##### **Upward factors**

- Higher-than-expected revenue growth and improvement in operating profitability to over 10%
- Sustained improvement in the financial risk profile with healthy debt protection metrics

##### **Downward factors**

- Steep decline in revenue or profitability leading to lower cash generation
- Large, debt-funded capex or significant stretch in the working capital cycle, weakening the debt metrics with gearing increasing to over 1 time.

#### **About the Company**

Nath was incorporated as a private limited company in 1980 and reconstituted as a public limited company in 1983. In 1993, Mr Nandkishor Kagliwal and entities in which he held stakes bought 51.41% of Nath's equity. The company manufactures writing and printing paper (WPP), absorbent paper and special-grade paper, with WPP and absorbent paper capacity of 21,600 TPA and speciality paper capacity of 8000 TPA in Vapi, Gujarat. In fiscal 2017, the company started its LABSA manufacturing plant in Vapi.

On October 30, 2017, Nath announced a scheme of arrangement and amalgamation between Nath Pulp and Paper Mills Ltd (NPPL), Nath Industrial Chemicals Ltd (NICL) and Nath along with their respective shareholders. The National Company Law Tribunal's approval for the same was received on August 22, 2019.

#### **About the Group**

##### **About NPPL**

NPPL, incorporated in April 1975 and promoted by Mr Nandkishor Kagliwal, manufactures high-strength core board and thermal grade paper and caters to a pan-India clientele. Based in Aurangabad, Maharashtra, the company has capacity to manufacture 68,400 TPA of core board paper and 6,000 TPA of thermal paper.

##### **About NICL**

NICL was incorporated as a private limited company and reconstituted as public limited company in 1983. In 1993, Mr Nandkishor Kagliwal bought the entire stake in NICL from its shareholders. NICL manufactures and trades in industrial chemicals. The key product, sulphuric acid, is used in pharmaceuticals, dyes and textiles. The company has a 2-MW captive thermal power plant which is expected to be upgraded to 3.3 MW by March 2023. Also, it has undertaken capex to enhance its chemical plant capacity from 280 TPD to 500 TPD.

During the three months ended June 30, 2022, Nath reported a net profit of Rs 2.16 crore on operating income of Rs 122.14 crore, against a net profit of Rs 6.12 crore on operating income of Rs 105 crore in the corresponding period of the previous fiscal.

### Key Financial Indicators

Particulars	Unit	2022	2021
Revenue	Rs crore	421	291
Profit after tax (PAT)	Rs crore	17	15
PAT margin	%	3.9	5.2
Adjusted debt/adjusted networkth	Times	0.31	0.25
Interest coverage	Times	5.84	9.41

**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.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users may also call the Customer Service Helpdesk with queries on specific instruments.

### Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit*	NA	NA	NA	41	NA	CRISIL BBB+/Stable
NA	Bank Guarantee	NA	NA	NA	1.5	NA	CRISIL A2
NA	Non-Fund Based Limit	NA	NA	NA	0.5	NA	CRISIL A2
NA	Term Loan	NA	NA	Feb-24	2.43	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Mar-28	12.50	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Mar-28	22.50	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Dec-26	7.70	NA	CRISIL BBB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1.13	NA	CRISIL BBB+/Stable

\*Bank guarantee sublimit of Rs 3.50 crore

\*Export packaging credit sublimit of Rs 10.00 crore

\*Foreign bill discounting sublimit of Rs 20.00 crore

\*Full interchangeability within the overall cash credit limit

### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	87.26	CRISIL BBB+/Stable	--	08-11-21	CRISIL BBB+/Stable	05-11-20	CRISIL BBB+/Stable	01-11-19	CRISIL BBB+/Stable	CRISIL BBB/Watch Developing	
			--	--	--	--	03-10-19	CRISIL BBB/Watch Developing	--			
			--	--	--	--	11-07-19	CRISIL BBB/Watch Developing	--			
			--	--	--	--	22-04-19	CRISIL BBB/Watch Developing	--			
			--	--	--	--	17-01-19	CRISIL BBB/Watch Developing	--			
Non-Fund Based Facilities	ST	2.0	CRISIL A2	--	08-11-21	CRISIL A2	05-11-20	CRISIL A2	01-11-19	CRISIL A2	CRISIL A3+/Watch Developing	
			--	--	--	--	03-10-19	CRISIL A3+/Watch Developing	--			
			--	--	--	--	11-07-19	CRISIL A3+/Watch	--			

											Developing	
			--	--		--	--		22-04-19	CRISIL A3+/Watch Developing	--	
			--	--		--	--		17-01-19	CRISIL A3+/Watch Developing	--	

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	1.5	State Bank of India	CRISIL A2
Cash Credit <sup>&amp;</sup>	41	State Bank of India	CRISIL BBB+/Stable
Non-Fund Based Limit	0.5	State Bank of India	CRISIL A2
Proposed Long Term Bank Loan Facility	1.13	Not Applicable	CRISIL BBB+/Stable
Term Loan	12.5	State Bank of India	CRISIL BBB+/Stable
Term Loan	22.5	State Bank of India	CRISIL BBB+/Stable
Term Loan	5.5	State Bank of India	CRISIL BBB+/Stable
Term Loan	2.2	State Bank of India	CRISIL BBB+/Stable
Term Loan	2.43	State Bank of India	CRISIL BBB+/Stable

This Annexure has been updated on 04-Nov-2022 in line with the lender-wise facility details as on 03-Nov-2022 received from the rated entity.

& - Bank guarantee sublimit of Rs 3.50 crore

& - Export packaging credit sublimit of Rs 10.00 crore

& - Foreign bill discounting sublimit of Rs 20.00 crore

& - Full interchangeability within the overall cash credit limit

#### Criteria Details

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

Media Relations	Analytical Contacts	Customer Service Helpdesk
<b>Aveek Datta</b> Media Relations <b>CRISIL Limited</b> M: +91 99204 93912 B: +91 22 3342 3000 <a href="mailto:AVEEK.DATTA@crisil.com">AVEEK.DATTA@crisil.com</a>	Mohit Makhija Senior Director <b>CRISIL Ratings Limited</b> B:+91 124 672 2000 <a href="mailto:mohit.makhija@crisil.com">mohit.makhija@crisil.com</a>	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301  For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a>
<b>Prakruti Jani</b> Media Relations <b>CRISIL Limited</b> M: +91 98678 68976 B: +91 22 3342 3000 <a href="mailto:PRAKRUTI.JANI@crisil.com">PRAKRUTI.JANI@crisil.com</a>	Anand Kulkarni Director <b>CRISIL Ratings Limited</b> B:+91 22 3342 3000 <a href="mailto:anand.kulkarni@crisil.com">anand.kulkarni@crisil.com</a>	For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a>
<b>Rutuja Gaikwad</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:Rutuja.Gaikwad@ext-crisil.com">Rutuja.Gaikwad@ext-crisil.com</a>	ANISH SALUJA Manager <b>CRISIL Ratings Limited</b> B:+91 124 672 2000 <a href="mailto:ANISH.SALUJA@crisil.com">ANISH.SALUJA@crisil.com</a>	



This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

### **About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)**

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit [www.crisilratings.com](http://www.crisilratings.com)

### **About CRISIL Limited**

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit [www.crisil.com](http://www.crisil.com)

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

---

#### **CRISIL PRIVACY NOTICE**

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit [www.crisil.com](http://www.crisil.com).

#### **DISCLAIMER**

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, [www.crisilratings.com](http://www.crisilratings.com) (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about ratings by CRISIL Ratings are available here: [www.crisilratings.com](http://www.crisilratings.com).

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, [www.crisilratings.com](http://www.crisilratings.com). For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at [crisilratingdesk@crisil.com](mailto:crisilratingdesk@crisil.com), or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>