

November 26, 2018

To,
The General Manager
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001

To,
Asst. Vice President,
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G, Bandra
Kurla Complex, Bandra (E), Mumbai,
Maharashtra 400051

Srip code : 516082
NSE symbol : NRAIL

Sub.: Intimation under Regulation 30 of LODR, 2015

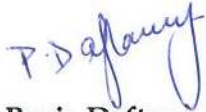
Dear Sir/Madam,

We wish to inform that India Ratings & Research (Ind-Ra) has upgraded NR Agarwal Industries Ltd's (NRA) Long-Term Issuer Rating to 'IND A-' from 'IND BBB'.

The Credit Rating letter has been enclosed.

Thanking you,

Yours faithfully,
For N R AGARWAL INDUSTRIES LIMITED,



Pooja Daftary
Company Secretary & Compliance Officer

India Ratings Upgrades NR Agarwal Industries to 'IND A-'/Stable

26

NOV 2018

By Krishan Binani

India Ratings and Research (Ind-Ra) has upgraded NR Agarwal Industries Ltd's (NRA) Long-Term Issuer Rating to 'IND A-' from 'IND BBB'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	FY19-FY24	INR2,175.1 (reduced from INR2,533.2)	IND A-/Stable	Upgraded
Fund-based working capital facility	-	-	-	INR1,059.3 (increased from INR980.1)	IND A-/Stable/IND A2+	Upgraded
Non-fund-based working capital limits	-	-	-	INR888.4 (increased from INR742.3)	IND A2+	Upgraded

The upgrade reflects an improvement in the credit metrics of NRA, along with a stable EBITDA margin, in FY18 on account of a rise in capacity utilisation, following the stabilisation of the writing and printing paper (WPP) unit, and an increase in realisation across product categories.

KEY RATING DRIVERS

Stable Profitability: NRA's EBITDA margin was 12.8% compared with a single-digit margin over FY12-FY16, though marginally down on a year-on-year basis due to an increase power cost owing to increased coal prices. The improvement in the margin in FY18 was driven by an increase in contribution from the high-margin WPP segment, capacity utilisation and realisations, especially in the WPP segment, on account of gradual absorption of capacity added over FY11-FY14. NRA expects its margin to improve in view of favourable business outlook for the domestic paper industry. It reported an EBITDA margin of 15.8% for 1HFY19.

Improved Credit Metrics: In FY18, NRA's net leverage (total net debt/operating EBITDA) was 1.9x (FY17: 2.2x) and gross interest coverage (operating EBITDA/gross interest expense) was 4.1x (3.2x). The improvement in the credit metrics was driven by an increase in EBITDA, and a decline in debt and financial expenses. The decline in financial expenses was due to falling interest rates (FY18: 11.05%; FY17: 12.3%) on its term debt.

Continued Revenue Growth: In FY18, NRA's revenue rose 16% yoy to INR12,131 million, driven by an increase in sales volume and realisation. During the period, its production rose 5.7% yoy and blended realisations increased 9.6% yoy. The company's WPP manufacturing unit in Sarigam (Gujarat), which faced several teething problems after commissioning in July 2014, stabilised over FY15-FY17. Moreover, the unit's utilisation continued to improve (FY18: 87%; FY17: 85%; FY16: 71%; FY15: 59%). The utilisation of duplex boards units at its Vapi (Gujarat) facility improved to near full capacity in FY18, with production volume rising 4.6% yoy.

Newsprint sales volume declined sharply owing to the management's decision to exit the segment. However, the company has since decided not to exit the segment completely in view of soaring newsprint prices. Improved prices across product categories and increased share of high-price WPP improved the overall realisations.

Significant Operating Track Record: NRA has a strong record of over two decades in the paper manufacturing business. Moreover, its promoters have 25 years of experience in the paper manufacturing business.

Ongoing Capex: NRA commenced a capex of INR1.2 billion in FY18 on various upgrades at its plant, aimed at improving operating performance. The capex is scheduled to be completed by FYE19. The company is converting its newsprint unit into a WPP unit and increasing the production capacity to 66,000 metric tons per annum from 36,000 metric tons per annum. It will continue to operate the newsprint facility to benefit from the surge in prices.

NRA is likely to witness healthy EBITDA growth in FY19, as new capacities ramp up. The company has proposed to set up a 600-tonne-per-day kraft paper manufacturing plant at a cost INR3.0 billion-3.5 billion. Although the feasibility study is ongoing, the company has indicated that there would not be any material capex over the next 12 months. Therefore, Ind-Ra expects NRA's net leverage to gradually decline over FY19-FY20.

Favourable Industry Outlook: Ind-Ra believes the outlook for the Indian paper industry continues to be favourable. Healthy demand growth and limited incremental supply are likely to keep realisations strong and the industry's pricing power intact. Paper demand, driven by growing consumerism and e-commerce, ban on plastic usage in several states, rising literacy and continued government spending on education, is likely to outpace planned supply additions in the next couple of years.

China's move to ban the import of several varieties of waste paper in 2018 led to a surge in global pulp prices and reduced the cost advantage of companies that export paper to India, preventing them from setting a cap on paper prices. Increasing wood pulp demand, along with limited capacity additions and reducing paper supply due to stricter emission norms in China, will continue to support global pulp and paper prices and keep imports under check.

NRA is a beneficiary of falling global waste paper prices due to China's ban.

Moderate Liquidity: NRA's average fund-based working capital limit utilisation was about 68% for the 12 months ended October 2018. Its cash flow from operations remained positive in FY18 at INR746 million (FY17: INR440 million). Its free cash flow increased to INR213 million in FY18 from INR130 million in FY17. The free cash flow was negative over FY10-FY16.

Forex Risk: NRA imports about 40% of its waste paper requirements. Thus, it is exposed to foreign exchange fluctuations, though the company derives natural hedge to the extent of exports and tries to minimise the risk through prudent hedging.

Cyclicality Inherent in Industry: The paper industry is cyclical in nature and incumbents are exposed to volatility in raw material prices, as well as threat of imports, which could prevent companies to pass on the increase in raw material prices. In addition, lumpy capacity additions that are not commensurate with demand growth could simultaneously exert upward pressure on raw material prices and downward pressure on finished product prices, leading to the weakening of profit margins.

RATING SENSITIVITIES

Positive: A rise in the revenue and the EBITDA margin, leading to an improvement in the overall credit metrics, all on a sustained basis, could lead to a positive rating action.

Negative: A decline in the profitability and/or any debt-led capex over and above Ind-Ra's expectation, leading to the net leverage exceeding 2.5x on a sustained basis, could lead to a negative rating action.

COMPANY PROFILE

Incorporated in 1993, NRA manufactures duplex board paper, WPP and newsprint paper. It has five manufacturing facilities with an aggregate capacity of 354,000 metric tons per annum. In addition, it has a 25MW power plant to meet captive requirements.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	12,131	10,444
EBITDA (INR million)	1,552	1,382
EBITDA margin (%)	12.8	13.2
Interest coverage (x)	4.1	3.2
Net leverage (x)	1.9	2.2
Source: NRA, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	28 September 2017	10 November 2016	3 September 2015
Issuer rating	Long-term	-	IND A-/Stable	IND BBB/Stable	IND BB+/Positive	IND B-/Stable
Term loan	Long-term	INR2,175.1	IND A-/Stable	IND BBB/Stable	IND BB+/Positive	IND B-/Stable

Fund-based working capital limits	Long-/short-term	INR1,059.3	IND A-/Stable/IND A2+	IND BBB/Stable/IND A3+	IND BB+/Positive/IND A4+	IND B-/Stable/IND A4
Non-fund-based working capital limits	Short-term	INR888.4	IND A2+	IND A3+	IND A4+	IND A4

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

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