Indo Count Industries Limited

September 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	211.32 (Enhanced from 49.88)	CARE A+; Positive (Single A Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	937.00 (Enhanced from 755.00)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Bank Facilities	**1,148.32 (Rs. One Thousand One Hundred Forty-Eight Crore and Thirty-Two Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook and upgrade in short term ratings assigned to the bank facilities of Indo Count Industries Limited (ICIL) factors in improvement in healthy operating margins and strong liquidity position. Further, the ratings continue to derive strength from its robust capital structure, comfortable debt coverage metrics, strong business profile - being one of India's leading Home Textile suppliers and exporters of bed linen with global reach, experienced Promoters in Home Textiles segment and reputed clientele profile.

The ratings are however tempered by risks of product/customer/geographic concentration, susceptibility to fluctuation in raw material prices and fluctuation in foreign exchange, both imparting volatility to profitability and cyclical and competitive nature of the Home Textile industry.

Outlook: Positive (revised from 'Stable')

The positive outlook primarily reflects CARE's belief that ICIL's business and financial risk profile will continue to improve over medium term. The revision in outlook also reflects expectations of ICIL's healthy revenue growth while sustaining PBILDT margins above 12% and improved liquidity. The Outlook may be revised to 'Stable' on significant decline in PBILDT margins, and deterioration in capital structure due to increased debt levels or lower cash accruals.

Rating Sensitivities

Positive Factors

- Substantial and significant scaling up of operations with sales remaining above Rs.2500 Crore on a consistent basis
- PBILDT margins above 12.5% on consistent basis.

Negative Factors

- Any increase in gross working capital cycle beyond 150 days.
- Deterioration in Overall gearing to 1x and above on sustained basis.
- Any capex/merger/acquisition or unrelated diversification leading to significant increase in debt levels.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoter in Home Textile segment

Indo Count Industries Ltd (ICIL) was established in 1988 by Mr. Anil Kumar Jain (Executive Chairman) who is a first generation entrepreneur and has experience of more than three decades in the Textile industry. He has been instrumental in establishing Indo Count Industries as one of the leading Home Textile Export House. Mr. Anil Kumar Jain, Executive Chairman, was honoured with "Business Today Best CEO (Textiles & Apparel)" Award for the year 2016 in December 2016. He is supported by his son, Mr. Mohit Jain (Executive Vice Chairman), and is assisted by a team of experienced professionals.

One of India's leading suppliers and exporters of bed linen with global reach

ICIL has emerged and established itself as one of India's top three suppliers and exporter of bed linen. It is amongst the leading bed sheet suppliers to USA. ICIL's product portfolio is spread across various products in the Home Textile market offering different qualities. It derives its competitive strength through expertise in designing and processing (printing/bleaching/dyeing) of bed linen. ICIL's wide range of product mix helps it to maintain its position as one of the leading players in the industry catering to large number of clients which includes top global retailers and renowned International brands.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Comfortable debt coverage metrics

ICIL's financial risk profile is driven by generation of comfortable cash-flows consequent into comfortable capital structure and strong debt coverage metrics. The company has extended corporate guarantee on behalf of its foreign subsidiary, adjusted overall gearing after factoring the guarantee continued to remain comfortable despite marginal deterioration from 0.44x as on March 31, 2020 to 0.49x as on March 31, 2021. During the same period, on account of higher profits, the company's interest coverage ratio and total debt to gross cash accruals also improved to 14.76x (PY: 6.08x) and 1.97x (PY: 4.43x) respectively. Financial profile of the company improved further during Q1FY22 with interest coverage of 15.19x.

Improvement in operating margins

During FY21 despite pandemic, total income increased to Rs.2,555 crore as against Rs.2,134 crore in FY20 due to volume growth of 26.54% and improvement in realisations by 3.14%. Consequently, the company's operating margins improved from 11.18% in FY20 to 16.22% in FY21. Subsequently, PAT margin also improved to 9.75% in FY20 from 3.42% in FY20. During Q1FY22 ICIL generated revenue of Rs.759.22 crore as against Rs.335.97 crore in Q1FY21.

Key Rating Weakness

Elongated working capital cycle albeit order backed inventory

The working capital cycle of the company continues to be elongated on account of high inventory period as the company has to maintain adequate inventory of its Home Textiles products of different designs in order to meet customer demands in a timely manner. The ability of the company to efficiently manage working capital cycle would be a key monitorable. Average maximum working capital utilisation remained moderate at 68.89% during last 12 months ended June 2021.

Product/Customer/Geographic concentration risk

ICIL's revenue profile continues to be concentrated with top client contributing ~30% and top three clients contributing nearly 55% of total sales in FY21 though the risk is mitigated to some extent given the established and long-standing relationships with these customers. Furthermore, majority of the export revenues i.e. nearly 75% of total sales is being derived from USA. It is also present in European region and has also expanded in new markets such as Canada, Australia, Japan, etc. However, USA continues to dominate by far as the largest export destination for ICIL. The share of owned brands sale in the international market has been increased to ~24% in FY21 from ~15% in FY20. The ability of the company to increase its sales outside USA and reduce its dependence on its top customers needs to be seen.

Susceptibility to fluctuation in raw material prices and forex rates

The company remains exposed to raw material movement and may have to absorb any adverse fluctuation in raw material prices. However, the risk is mitigated to certain extent as it mainly follows order-based production policy which minimizes raw material/inventory fluctuation risk. ICIL is primarily engaged in the manufacturing and exports of Home Textile. Being a net exporter, ICIL is inherently exposed to foreign currency fluctuation risk. Given the sharp fluctuations in USD/INR rate in FY19, the company changed its strategy to hedge forex exposure up to 12 months in the range of 60-65% against the earlier policy of hedging forex exposure up to 18 months and in the range of 75-85%. The company's margins remain exposed to forex rate fluctuation.

Competitive Industry

Global Home Textile market is mainly driven by demand from USA which is the largest Home Textile player. This demand is catered by countries like China, India, Pakistan, Vietnam, etc. The Indian export Home Textile market is dominated by few large players such as Welspun India, Indo Count, Himatsingka Siede, Trident, etc. These organised and larger players mainly cater to export demand from large global retailers and face competition from countries like China, Pakistan, Vietnam, etc.

Industry Outlook

Home textile offers a wide range of categories such as furnishing fabrics, curtains, carpets, table covers, kitchen accessories, made-ups, bedspreads, bath linen, and other home furnishings. The global home textile market stands at USD 155 billion in 2021 and is expected to reach to USD 174 billion in 2025 at a CAGR of 2.9%. The industry is witnessing a steady growth driven by factors, like rising consumer spending on home renovation and fashion sensitivity towards household furnishing.

During the year, the sector faced demand from the hospitality sector, a moderate demand from the household sector and increasing demand from the healthcare sector due to the pandemic.

Rapid urbanisation, improved standard of living coupled with increasing spending power are some of the key factors anticipated to support growth drive in the Indian home textile industry. Growing spending towards modernisation of the interior of the households is resulting in demand surge for home textile products such as bedsheets, pillows and covers, and curtains, among others. Furthermore, rising awareness for healthcare and hygiene is expected to increase demand from the healthcare sector as well. Exports to the US and EU region are also likely to witness an upsurge. Younger population, increasing per capita income and compulsive buying habits of consumers are the prime reasons behind this increase.

Liquidity analysis: Strong
ICIL has strong liquidity with cash & cash equivalents of Rs. ~388 crore as on August 30, 2021 and is expected to generate GCA of Rs.397.50 crore in FY22. The same is sufficient to service scheduled debt repayments of Rs.15.94 crore in FY22. The company also has some headroom available on its working capital limits on account of moderate utilisation of 62.96% for last 12 months ended June 2021.

Analytical Approach:
CARE has analysed ICIL's credit profile by considering the consolidated financial statements owing to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows, and corporate guarantee given by ICIL on behalf of its foreign subsidiary.

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology for Cotton Textile Manufacturing
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Consolidation

About the Company
Indo Count Industries Ltd (ICIL) was incorporated in 1988 by Mr. Anil Kumar Jain (Executive Chairman) with a view to set up a 100% export oriented combed cotton yarn spinning unit. Over the years ICIL has emerged and established itself as one of India's top three suppliers and exporter of bed linen. It is amongst the leading bed sheet suppliers to USA. ICIL derives its competitive strength through expertise in designing and processing (printing/bleaching/dyeing) of bed linen. Besides it also has presence in spinning (61,488 spindles), weaving (128 looms) and made-ups. ICIL's product portfolio includes Bed linens, Comforters, Quilts, Pillow cases, Duvet covers, etc. Over the years, the company expanded its processing capacity which currently stands at 90 million meters p.a. ICIL's manufacturing facility is located at Kolhapur (Maharashtra, India).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	2134.45	2554.94	759.22
PBILDT	238.68	414.42	177.75
PAT	73.09	249.12	117.29
Overall gearing (times)	0.36	0.45	NA
Interest coverage (times)	6.08	14.76	15.19

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2026*	211.32	CARE A+; Positive
Fund-based-Short Term	-	-	-	800.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	137.00	CARE A1+

*includes proposed loan. Maturity date refers to last installment due on existing term loan.

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	211.32	CARE A+; Positive	-	1)CARE A+; Stable (23-Sep-20)	1)CARE A+; Stable (10-Sep-19)	1)CARE AA-; Negative (14-Nov-18) 2)CARE AA; Negative (05-Sep-18) 3)CARE AA; Negative (15-May-18)
2.	Fund-based-Short Term	ST	800.00	CARE A1+	-	1)CARE A1 (23-Sep-20)	1)CARE A1 (10-Sep-19)	1)CARE A1+ (14-Nov-18) 2)CARE A1+ (05-Sep-18) 3)CARE A1+ (15-May-18)
3.	Non-fund-based - ST-BG/LC	ST	137.00	CARE A1+	-	1)CARE A1 (23-Sep-20)	1)CARE A1 (10-Sep-19)	1)CARE A1+ (14-Nov-18) 2)CARE A1+ (05-Sep-18) 3)CARE A1+ (15-May-18)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based-Short Term	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure 4: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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