Indo Count Industries Limited

November 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	278.54 (Reduced from 358.51)	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	1,397.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Indo Count Industries Limited (ICIL) factors in the sustained improvement in the overall credit profile of ICIL in FY23 and H1FY24. The business risk profile continues to remain healthy with stable performance in FY23 and improved performance in H1FY24. Global slowdown in demand resulted in volume degrowth of 1.45% which was offset by improved realization driving growth of 2.45% in total operating income (TOI) in FY23. With restocking by retailers and festive season, H1FY24 recorded significant recovery in TOI growth of 13.13%. With global stagflation, sustainability of healthy order flows will remain monitorable. However, increase in revenue mix from value-added products would ensure stable revenue growth while maintaining healthy margins.

The ratings also continue to factor that despite partial debt-funded capex plans over the last two years, the financial risk profile continues to remain comfortable supported by strong capital structure and debt coverage metrics. The steady accretion to reserves, scheduled debt repayments and absence of significant capex plans will aid the financial risk profile to improve over the medium term.

Furthermore, the ratings continue to derive strength from its strong business profile - being one of India's leading home textile suppliers with the highest processing capacity and exporters of bed linen with global reach, experience of promoters in home textiles segment, and the reputed clientele profile. Improvement in production capacity utilization post capacity addition (Bhilad plant) leading to significant increase in scale and operating margin is yet to be seen.

The ratings are, however, tempered by risks of the concentration of products, customers, and geography; the susceptibility to fluctuations in raw material prices and foreign exchange, both imparting volatility to profitability; and the cyclical and competitive nature of the home textile industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in revenues above ₹3,500 crore on a consistent basis while sustaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin in the range of 18-20%*.
- Improvement in its net debt/PBILDT to below unity on a sustained basis.

Negative factors

- Any further elongation in the inventory period, leading to an operating cycle stretching beyond 200 days on a sustained basis.
- Deterioration in the overall gearing to 0.75x and above on a sustained basis.

*excluding non-operating income

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has analysed ICIL's credit profile by considering the consolidated financial statements owing to the financial and operational linkages between the parent and subsidiaries, common management, and fungible cash flows, and the corporate guarantee given by ICIL on behalf of its foreign subsidiary. The list of subsidiaries is presented in Annexure 6.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The 'Stable' outlook reflects that ICIL's financial risk profile is expected to remain comfortable over the medium term on account of steady accretion to reserves, scheduled debt repayments and absence of significant capex plans.

Detailed description of the key rating drivers:

Key strengths

Experienced promoter in the home textile segment

ICIL was established in 1988 by 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 ICIL as one of the leading home textile export houses. He is supported by his son, 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 a global reach

ICIL has emerged and established itself as one of India's top three suppliers and exporters of bed linen. It is among the leading bed sheet suppliers in the US. 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, and dyeing) bed linen. ICIL's wide range of product mix helps it maintain its position as one of the leading players in the industry, catering to a large number of clients, which includes top global retailers and renowned international brands.

Improvement in operating margins

During FY23, despite recessionary trend in Europe and cut down on non-essential expenses in the US amid high inflation, total operating income remained stable and improved marginally by 2.45% and stood at ₹3,025 crore as against ₹2,952 crore in FY22 due to marginal improvement in realisations by 2.49% to ₹372.64 per metre, despite a marginal volume de-growth of 1.45% in FY23 partly aided by acquisition of home textile business of GHCL. India's home textile export market in FY23 was affected by volatile domestic cotton prices and excess inventory build-up with US retailers. Better hedging of cotton prices, higher contribution from value-added products (around 19%) and ICIL's ability to pass on higher input prices to the customers resulted in healthy operating profit margins of 15.49% in FY23 (PY: 18.60%). During H1FY24, ICIL's TOI improved by 13.13% and stood at ₹1,750.39 crore as against ₹1,547.18 crore in H1FY23 driven by improved demand due to restocking at retailers end since Q1FY24 in key export markets. During H1FY24, the PBILDT and PAT margins improved to 16.54% and 10.74% respectively.

Comfortable debt coverage metrics

ICIL's financial risk profile is driven by the generation of comfortable cash flows resulting into comfortable capital structure and debt coverage metrics. The company has extended a corporate guarantee (CG) on behalf of its foreign subsidiary. The adjusted overall gearing after factoring in the guarantee improved and remained comfortable at 0.52x (PY: 0.86x) as on March 31, 2023, primarily on account of lower working capital utilisation of ₹596.11 crore (PY: ₹1,188.05 crore). During the same period, the company's interest coverage ratio and total debt (TD) to gross cash accruals (GCA) remained comfortable at 7.51x (PY: 11.60x) and 2.51x (PY: 3.37x), respectively. The financial profile of the company improved during H1FY24 with TD to GCA of 1.81x and interest coverage ratio of 8.90x. As on September 30, 2023, the debt coverage metrics have improved primarily on account of accretion of profits and scheduled repayment of debt obligations.

Key weaknesses

Elongated working capital cycle, albeit order-backed inventory

The working capital cycle of the company continues to be elongated on account of the high inventory period, as the company has to maintain an adequate inventory in order to meet its customer demands in a timely manner. The ability of the company to efficiently manage the working capital cycle will be a key monitorable. The average working capital utilisation remained high, at 70% during the last 12 months ended October 31, 2023. However, for the month ended October 31, 2023, the average working capital utilization remained moderate at 53%.

Risk of product, customer, and geographic concentration

ICIL's revenue profile continues to be concentrated, with the top client contributing around 21% (PY: around 26%) and the top five clients contributing nearly 46% of the total sales in FY23 (PY: around 66%), although the risk is mitigated to some extent given the established and long-standing relationships with these customers. Furthermore, the majority of the export revenues, i.e., nearly 74% of the total sales is being derived from the US. The company is also present in the European region and has also expanded in new markets such as Canada, Australia, Middle East, etc. However, the US by far continues to dominate as the largest export destination for ICIL. The ability of the company to increase its sales outside the US 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 movements and may have to absorb any adverse fluctuations in raw material prices. However, the risk is mitigated to a certain extent, as it mainly follows the order-based production policy, which minimises the raw materials and inventory fluctuation risk. ICIL is primarily engaged in the manufacturing and exports of home textiles. Being a net exporter, it is inherently exposed to foreign currency fluctuation risk. Given the sharp fluctuations in the US Dollar/IN Rupee 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

The global home textile market is mainly driven by demand from the US, which is the largest home textile player. This demand is catered by countries like China, India, Turkey, Pakistan, Vietnam, etc. The Indian export home textile market is dominated by a 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, Turkey, Pakistan, Vietnam, etc.

Liquidity: Strong

ICIL has strong liquidity with cash and liquid investments of ₹172.52 crore as on September 30, 2023, and has generated GCA of ₹235.24 crore in H1FY24. The same is sufficient to service scheduled debt repayments of ₹58.46 crore in FY24. The company's average working capital utilisation remained high, at 70% for the last 12 months ended October 31, 2023. However, for the month ended October 31, 2023, the average working capital utilization remained moderate at 53%.

Environment, social, and governance (ESG) risks

Environmental: The company's policies and actions are principally aimed at reducing CO2 emissions and it aims to net zero by the year 2050. The company plans to reduce Scope 1 & Scope 2 GHG emissions by 33% in its operations by 2030. It also plans to reduce Scope 3 GHG emission by 14.8% in its supply chain by 2030. The company also focuses on optimising its energy consumption, adopting a dual approach – reduce and recycle and moving towards renewable energy. The company has moved part of its energy source from thermal to renewable sources. It has installed solar panels which generate about 4.92 mn units of electricity. It has also installed a biogas plant to generate energy for internal consumption.

Social: The company's CSR activities are directed towards areas of education, healthcare, agriculture and livelihood improvement initiatives, water and sanitation, environment and supporting the differently abled. These CSR activities are carried out keeping in mind the preference for local areas where the company operates. The activities revolve in and around the Kolhapur & Vidarbha areas of Maharashtra, and the Bhilad area of Valsad District in Gujarat.

Governance: The company lays strong emphasis on integrity, compliance, transparency and accountability. With seven independent and four executive directors the company has a good mix of independent and executive directors.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles & Apparels	Other textile products

ICIL was incorporated in 1988 by 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 exporters of bed linen. It is among the leading bed sheet suppliers to the US. ICIL derives its competitive strength through expertise in designing and processing (printing, bleaching, and dyeing) bed linen. Besides, it also has a presence in spinning (1,40,000 spindles), weaving (320 looms), and made-ups. ICIL's product portfolio includes bed linens, comforters, quilts, pillow cases, duvet covers, etc. Over the years, the company has expanded its processing capacity, which currently stands at 153 million metres per annum. ICIL's manufacturing facilities are located at Kolhapur, Maharashtra and Bhilad, Gujarat.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	2,952.41	3,024.72	1,750.39
PBILDT	549.21	468.57	289.53
PAT	358.61	276.78	187.92
Overall gearing (times)	0.83	0.49	0.44
Interest coverage (times)	11.60	7.51	8.90

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	30-04-2028	278.54	CARE AA-; Stable
Fund-based-Short term	-	-	-	-	1260.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	137.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	278.54	CARE AA-; Stable	-	1)CARE AA-; Stable (22-Dec-22) 2)CARE AA-; Stable (05-Dec-22)	1)CARE A+; Positive (07-Sep-21)	1)CARE A+; Stable (23-Sep-20)
2	Fund-based-Short term	ST	1260.00	CARE A1+	-	1)CARE A1+ (22-Dec-22) 2)CARE A1+ (05-Dec-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1 (23-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	137.00	CARE A1+	-	1)CARE A1+ (22-Dec-22) 2)CARE A1+ (05-Dec-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1 (23-Sep-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not available

Annexure-4: Complexity level of the various instruments rated

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-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of subsidiaries consolidated as on March 31, 2023

Sr. No.	Name of the Company/Entity	Country of Incorporation	% shareholding as on March 31, 2023
1.	Indo Count Global Inc.	US	100%
2.	Indo Count UK Limited	UK	100%
3.	Indo Count Global DMCC	UAE	100%
4.	Indo Count Retail Ventures Private Limited	India	100%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: ranjan.sharma@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3657 E-mail: arti.roy@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in