Indo Count Industries Limited

December 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	358.51 (Enhanced from 211.32)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	1,397.00 (Enhanced from 937.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**1,755.51 (₹ One thousand seven hundred fifty-five crore and fifty-one lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

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 over the past two years. The business risk profile has improved with a total operating income (TOI) growth of 19% and 16% in FY21 and FY22, respectively, driven by improved demand, leading to higher volumes and realisations, resulting into higher revenues and improved profitability. Despite the partial debt-funded capex plans in FY23, the financial risk profile is expected to remain comfortable, supported by a healthy capital structure and debt coverage metrics. The steady accretion to reserves and scheduled debt repayments 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 (post-acquisition of GHCL's home textile division) and exporters of bed linen with a global reach, experienced promoters in the home textiles segment, and the reputed clientele profile.

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. Any changes in the funding mix for the capex envisaged in FY23 or any unenvisaged capex or merger or acquisition or unrelated diversification, leading to a significant increase in the debt levels, resulting in a deterioration in the capital structure and debt coverage metrics, thereby resulting in weakening of the financial risk profile, will remain a key monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Substantial and significant scaling up of operations, with sales remaining above ₹3,500 crore on a consistent basis, aided by improved performance, resulting in an improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to over 20% and return on capital employed (ROCE) to around 25%.
- Improvement in its net debt/PBILDT to below unity on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- 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.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

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.

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

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 FY22, despite the second wave of the COVID-19 pandemic in Q1FY22, the total income improved by 16.17% and stood at ₹2,952 crore as against ₹2,541 crore in FY21 due to an improvement in realisations by 10.86% to ₹363.58 per metre, despite a marginal volume de-growth of 3.07% in FY22. Consequently, the company's operating margins improved from 15.77% in FY21 to 18.60% in FY22. Subsequently, the profit-after-tax (PAT) margin also improved to 12.15% in FY22 from 9.80% in FY21. During H1FY23, ICIL generated a revenue of ₹1,571.05 crore as against ₹1,526.17 crore in H1FY22. The PBILDT and PAT margins also moderated to 16.59% (PY: 20.77%) and 9.19% (PY: 13.24%), 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 continued to remain comfortable, despite a deterioration from 0.49x as on March 31, 2021, to 0.86x as on March 31, 2022, primarily on account of higher working capital utilisation of ₹1,188.05 crore (PY: ₹537.08 crore). During the same period, the company's interest coverage ratio and total debt (TD) to gross cash accruals (GCA) also remained comfortable at 11.60x (PY: 14.28x) and 3.37x (PY: 1.97x), respectively. The financial profile of the company improved during H1FY23 with TD to GCA of 2.93x and a comfortable interest coverage ratio of 7.43x. As on September 30, 2022, the debt coverage metrics have improved primarily on account of a reduction in the utilisation of working capital bank borrowings to ₹868.29 crore from ₹1,188.05 crore as on March 31, 2022. The net debt has also declined from ₹925.31 crore as on March 31, 2022, to ₹780.18 crore as on September 30, 2022.

Key rating 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 80% during the last 12 months ended October 31, 2022.

Risk of product, customer, and geographic concentration: ICIL's revenue profile continues to be concentrated, with the top client contributing around 24% (PY: around 30%) and the top three clients contributing nearly 53% of the total sales in FY22 (PY: around 55%), 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, ie, nearly 75% 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 ₹236.23 crore as on September 30, 2022, and has generated GCA of ₹173.57 crore in H1FY23. The same is sufficient to service scheduled debt repayments of ₹35.40 crore in FY23. The company's average working capital utilisation remained high, at 80% for the last 12 months ended October 31, 2022.

Analytical approach

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 CG given by ICIL on behalf of its foreign subsidiary. The list of subsidiaries is presented in Annexure 6.

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

About the company

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 (61,488 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 135 million metres per annum. ICIL's manufacturing facilities are located at Kolhapur, Maharashtra and Bhilad, Gujarat.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
TOI	2,541.44	2,952.42	1,571.05
PBILDT	400.91	549.22	260.60
PAT	249.12	358.61	144.35
Overall gearing (times)	0.45	0.83	0.64
Interest coverage (times)	14.28	11.60	7.43

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated for this company: Annexure-4

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	-	-	-	30-09-2027	358.51	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term Loan	LT	358.51	CARE AA-; Stable	1)CARE AA-; Stable (05-Dec-22)	1)CARE A+; Positive (07-Sep-21)	1)CARE A+; Stable (23-Sep-20)	1)CARE A+; Stable (10-Sep-19)
2.	Fund-based-Short Term	ST	1260.00	CARE A1+	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1 (23-Sep-20)	1)CARE A1 (10-Sep-19)
3.	Non-fund-based - ST-BG/LC	ST	137.00	CARE A1+	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1 (23-Sep-20)	1)CARE A1 (10-Sep-19)

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

Not available

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of 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: Bank lender details for this company

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

Annexure-6: List of subsidiaries which are consolidated

Name of the subsidiary	Country	% holding
Pranavaditya Spinning Mills Limited	India	74.53%
Indo Count Retail Ventures Private Limited	India	100%
Indo Count Global Inc.	USA	100%
Indo Count UK Limited	UK	100%
Indo Count Global DMCC	UAE	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.

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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.

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