

Indo Count Industries Limited

September 10, 2019

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|---|--|
| Long term Bank Facilities | 71.44 (311.43) | CARE A+; Stable (Single A Plus; Outlook: Stable) | Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative) |
| Short term Bank Facilities | 755.00 (755.00) | CARE A1 (Single A One) | Revised from CARE A1+ (A One Plus) |
| Total | 826.44 (Rupees Eight hundred twenty six crore and forty four lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in ratings assigned to the bank facilities of Indo Count Industries Ltd (ICIL) is on account of weak operational performance, with revenues remaining flat and decline in profitability on account of reduction in export incentives and forex losses. ICIL's performance in the near term is expected to remain constrained despite the recent increase in export incentives. The payout towards refund of excess Merchandise Export from India Scheme benefits received by the company to the tune of Rs. 73.6 crore (excluding interest) would strain the company's liquidity and profitability in the near term.

These ratings are also 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.

The ratings and the revision in outlook, continues to derive strength from its robust capital structure, comfortable, albeit declining debt coverage metrics, strong business profile – being one of India's leading Home Textile suppliers and exporters of Bed linen, experienced Promoters in Home Textiles segment, reputed clientele profile and government support through export incentives.

Any capex/merger/acquisition or unrelated diversification leading to an increase in debt levels and adversely impacting capital structure, any further increase in gross working capital cycle and decline in profitability remains key rating sensitivity.

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: 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 no of clients which includes top global Retailers and Renowned International brands.

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 improved from 0.46x as on March 31, 2018 to 0.41x as on March 31, 2019 on account of accretion of profits to reserves and scheduled debt repayment. During the same period, on account of lower profits, the company's interest coverage ratio and total debt to gross cash accruals deteriorated to 4.65x and 3.40x, however, remained comfortable.

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

Key Rating Weakness

Deterioration in operating margins: During FY19, despite volume growth of 3.34% and improvement in realisations by 4.05%, the total income remained flat at Rs. 1,944 crore as against Rs. 1,954 crore mainly on account of reduction in export incentives and adverse movement of forex rates.

Consequently, the company's operating margins dipped from 13.23% in FY18 to 8.51% in FY19. Subsequently, PAT margin also declined to 3.08% in FY19 from 6.41% in FY18.

Refund of excess export benefits to dent company's profitability and liquidity in the near term: The payout of refund of excess export benefits in the form of Merchandise Exports from India Scheme (MEIS) scripts for the period FY16 to FY18 to the extent of Rs. 73.62 crore and interest thereon totalling to Rs ~94 crore (as the matter is under adjudication process, the amount is not finalised) is expected to impact the company's liquidity and profitability in the near term.

Elongated working capital cycle: 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 60.58% during last 12 months ended July 2019.

Product/Customer/Geographic concentration risk: ICIL's revenue profile continues to be concentrated with top client contributing 33% and top three clients contributing nearly 50% of total sales in FY18. Furthermore, majority of the export revenues i.e. nearly 70% of total sales is being derived from USA.

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 which contributed 97% of total operating income in FY19. Being a net exporter, ICIL is inherently exposed to foreign currency fluctuation risk. Given the sharp fluctuations in USD/INR rate, the company has 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 remains 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

The Indian textiles industry, currently estimated at around US\$ 120 billion, is expected to reach US\$ 230 billion by 2020. The Indian Textile Industry contributes approximately 4 per cent to India's Gross Domestic Product (GDP), and 14 per cent to the overall Index of Industrial Production (IIP). Indian exports of locally made retail and lifestyle products grew at a compound annual growth rate (CAGR) of 10 per cent from 2013 to 2016, mainly led by bedding bath and home decor products and textiles. The Indian government has come up with a number of export promotion policies for the textiles sector. It has also allowed 100 per cent FDI in the Indian textiles sector under the automatic route. The future for the Indian textile industry looks promising, buoyed by both strong domestic consumption as well as export demand. With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade with the entry of several international players like Marks & Spencer, Guess and Next into the Indian market.

Liquidity Analysis

ICIL has an adequate liquidity profile with free cash of Rs. ~20 crore as on June 30, 2019 and is expected to generate GCA of Rs. 94.40 crore (post the payout towards refund of excess export benefits) in FY20. The same is sufficient to service scheduled debt repayments of Rs. 23.08 crore in FY20, of which the company has repaid Rs. 6.49 crore in Q1FY20. The company also has some headroom available on its working capital limits on account of moderate utilisation of 60.58% for last 12 months ended July 2019. However, the company's liquidity profile in the near term will remain strained on account of Rs. ~94 crore payout towards refund of excess of export incentives received.

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 to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology for Cotton Yarn Industry](#)

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) | FY18 (A) | FY19 (A) | Q1FY20 (UA) |
|------------------------------|----------|----------|-------------|
| Total operating income | 1954.25 | 1943.82 | 518.46 |
| PBILDT | 258.59 | 165.37 | 71.37 |
| PAT | 125.28 | 59.84 | 34.67 |
| Overall gearing (times) | 0.40 | 0.34 | - |
| Interest coverage (times) | 7.44 | 4.65 | 7.98 |

A: Audited; UA: Unaudited

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 Instruments/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 | - | - | Jan 2024 | 71.44 | CARE A+; Stable |
| Fund-based-Short Term | - | - | - | 525.00 | CARE A1 |
| Non-fund-based - ST-BG/LC | - | - | - | 230.00 | CARE A1 |

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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Term Loan | LT | 71.44 | CARE A+; Stable | - | 1)CARE AA-; Negative (14-Nov-18) 2)CARE AA; Negative (05-Sep-18) 3)CARE AA; Negative (15-May-18) | 1)CARE AA; Stable (21-Aug-17) | 1)CARE AA- (17-Oct-16) 2)CARE A (14-Apr-16) |
| 2. | Debentures-Non Convertible Debentures | LT | - | - | - | - | - | 1)Withdrawn (21-Jun-16) 2)CARE A (14-Apr-16) |
| 3. | Fund-based-Short Term | ST | 525.00 | CARE A1 | - | 1)CARE A1+ (14-Nov-18) 2)CARE A1+ (05-Sep-18) 3)CARE A1+ (15-May-18) | 1)CARE A1+ (21-Aug-17) | 1)CARE A1+ (17-Oct-16) 2)CARE A1 (14-Apr-16) |
| 4. | Non-fund-based - ST-BG/LC | ST | 230.00 | CARE A1 | - | 1)CARE A1+ (14-Nov-18) 2)CARE A1+ (05-Sep-18) 3)CARE A1+ (15-May-18) | 1)CARE A1+ (21-Aug-17) | 1)CARE A1+ (17-Oct-16) 2)CARE A1 (14-Apr-16) |

Annexure-3: Name of the companies consolidated with ICIL

| Sr. No. | Companies |
|---------|--|
| 1 | Pranavadiya Spinning Mills Limited |
| 2 | Indo Count Retail Ventures Pvt. Ltd. |
| 3 | Indo Count Global Inc., USA |
| 4 | Indo Count UK Limited |
| 5 | Indo Count Australia Pty Ltd |
| 6 | Indo Count Global DMCC (Formerly known as Hometex Global DMCC) |

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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