Indo Count Industries Limited

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	49.88 (Reduced from 71.44)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	755.00	CARE A1 (A One)	Reaffirmed
Total Facilities	**804.88 (Rs. Eight Hundred Four Crore and Eighty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to the bank facilities of Indo Count Industries Ltd (ICIL) continues 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, 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.

Rating Sensitivities

Positive Factors

- Substantial and significant scaling up of operations with sales remaining above Rs.2300 Crore on a consistent level.
- PBILDT margins improving from current level of above 11.18% to 12.5% on continuous 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 an 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: 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.

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 deteriorated marginally from 0.41x as on March 31, 2019 to 0.44x as on March 31, 2020. 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 6.08x (PY : 4.65x) and 4.43x (PY: 3.40x) respectively.

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

Further, financial profile of the company remained stable during Q1FY21 with interest coverage of 7.40x.
Improvement in operating margins: During FY20, due to volume growth of 7.66% and improvement in realisations by 3.45%, the total income increased to Rs. 2,134 crore as against Rs. 1,944 crore in FY19. Further, favourable movement of foreign rates led to increase in revenue.
Consequently, the company's operating margins improved from 8.51% in FY19 to 11.18% in FY20. Subsequently, PAT margin also improved to 3.42% in FY20 from 3.08% in FY19 despite exceptional loss of Rs.98.46 crore due to excess MEIS claimed (Rs.94.27 crore (MEIS claimed Rs.72.68 crore and Rs.21.59 crore interest) refund of excess export benefits claimed under MEIS scheme of earlier years (FY16-FY19) and balance refund of Rs.4.19 crore written off for the period March 07, 2019-September 30, 2019).
The Ministry of Textiles and Ministry of Commerce had withdrawn the benefits under Merchandise Exports from India Scheme (MEIS) retrospectively from March 7, 2019 on certain products due to which the company had to refund the excess benefit received in earlier years.
There has been a dip in the sales in Q1FY21 to Rs.335.97 crore from Rs.518.46 crore in Q1FY20 as the production was stopped due to lockdown. The manufacturing facilities resumed partial operations from last week of April 2020, however supply chain and logistics could gradually start operations from June 2020.

Key Rating Weaknesses

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 63.39% during last 12 months ended July 2020.

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 FY20. Furthermore, majority of the export revenues i.e. nearly 70% 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 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 93% of total operating income in FY20. 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 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

Indian home furnishings comprises of bedspreads, furnishing fabrics, curtains, rugs, durries, carpets, placemats, cushion covers, table covers, linen, kitchen accessories, made-ups, bed spreads, bath linen and other home furnishings accessories. The demand in the home textile market is governed by the rise in disposable income of the households and improvement in the living standards. United States and Europe are the two major markets in the segment; with India, China, Turkey, Pakistan and Bangladesh being the major suppliers.
In the U.S., over the years, India has been able to gain significant share in global home textile trade. Factors such as China's new cotton and yarn policy, energy uncertainties in Pakistan and workers' safety issue in Bangladesh have put India at an advantageous position against these major competitors. Further, India enjoys competitive advantage in terms of raw material availability i.e. cotton, wool and silk along with availability of skilled manpower.
In European Union, which is an equally large market, the Indian suppliers are at a disadvantage compared to their peers owing to unfavourable duty structures. EU has granted preferential tariff rates to the supplies from Bangladesh, Pakistan, and Turkey. This has led to low penetration of the Indian players in the EU. However, India is in discussion with the EU for an FTA which, if successful, can pose as a huge opportunity for the Indian players.
Indian home textile market is also growing at a fast pace, presenting strong potential for growth. The growth in the home textiles would be supported by growing household income, increasing population, rising income levels, increase in organised retail and growth of end use sectors like housing, hospitality, healthcare etc.

Covid-19 pandemic led to disruption in operations of the manufacturers and also slowdown in demand, in both Indian and export markets. Lockdown affected the operations of the manufacturers and also their supply chains. Though orders/ sales started to pick up by the end of Q1, demand, in the bed linen, in the near term is likely to be impacted because of the slowdown in the global economy and overall reduction in discretionary spending by the public at large. Discretionary consumer spending has been impacted by the slowing economic growth rates, job losses and salary cuts. The exact impact of pandemic will depend on the pace of recovery in the global economy. Since Indian bed linen players derive a substantial portion of their incomes from exports (majorly to the U.S. and E.U.), the economic recovery in these two destinations will be closely looked at.

Liquidity: Adequate

ICIL has adequate liquidity with free cash of Rs. ~140 crore as on August 20, 2020 and is expected to generate GCA of Rs.172.34 crore in FY20. The same is sufficient to service scheduled debt repayments of Rs.19.91 crore in FY20, of which the company has repaid Rs. 6.53 crore in Q1FY21. The company also has some headroom available on its working capital limits on account of moderate utilisation of 63.39% for last 12 months ended July 2020.

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.
The list of entities consolidated is provided in Annexure – 5.

Applicable Criteria

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

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).

Financial Performance: (Rs. cr)

For the period ended / as at March 31,	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Working Results			
Net Sales	1696.79	1801.49	1911.63
Total Operating income	1954.25	1943.82	2134.45
PBILDT	258.59	165.37	238.69
Interest	34.74	35.60	39.25
Depreciation	33.06	35.27	43.46
PBT	194.22	94.54	56.68
PAT (after deferred tax)	125.28	59.84	73.10
Gross Cash Accruals	160.58	99.09	81.26
Financial Position			
Equity Capital	39.48	39.48	39.48
Networth	961.01	979.16	990.34
Total capital employed	1467.75	1427.69	1410.37
Key Ratios			
Growth			

For the period ended / as at March 31,	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Growth in Total income (%)	NM	NM	9.81
Growth in PAT (after deferred tax) (%)	NM	NM	22.16
Profitability			
PBILDT/Total Op. income (%)	13.23	8.51	11.18
PAT (after deferred tax)/ Total income (%)	6.41	3.08	3.42
ROCE (%)	16.65	6.79	3.33
Solvency			
Debt Equity ratio (times)	0.06	0.08	0.07
Overall gearing ratio(times)	0.40	0.34	0.36
Interest coverage(times)	7.44	4.65	6.08
Term debt/Gross cash accruals (years)	0.38	0.81	0.83
Total debt/Gross cash accruals (years)	2.39	3.40	4.43
Liquidity			
Current ratio (times)	1.99	2.19	1.86
Quick ratio (times)	0.94	1.04	0.97
Turnover			
Average collection period (days)	63	54	47
Average inventory (days)	117	119	105
Average creditors (days)	41	34	26
Operating cycle (days)	140	139	126

A: Audited; NM: Not Meaningful

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: NA

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	49.88	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	49.88	CARE A+; Stable	-	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)	1)CARE AA; Stable (21-Aug-17)
2.	Fund-based-Short Term	ST	525.00	CARE A1	-	1)CARE A1 (10-Sep-19)	1)CARE A1+ (14-Nov-18) 2)CARE A1+ (05-Sep-18) 3)CARE A1+ (15-May-18)	1)CARE A1+ (21-Aug-17)
3.	Non-fund-based - ST-BG/LC	ST	230.00	CARE A1	-	1)CARE A1 (10-Sep-19)	1)CARE A1+ (14-Nov-18) 2)CARE A1+ (05-Sep-18) 3)CARE A1+ (15-May-18)	1)CARE A1+ (21-Aug-17)

Annexure-3: Details of Rated Facilities
1. Long Term Facilities
1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	Exim Bank	39.16	Quarterly. Repayments from April 2019 to Jan. 2024
2.	Union Bank of India	7.50	Quarterly. Repayments from March 2017 to Dec. 2021
3.	UBS AG	3.22	Quarterly repayments till September 2021
	Total	**49.88**	

Total Long Term Facilities : Rs.49.88 crore

2. Short Term Facilities
2.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Union Bank of India	100.00	CC/Pre Shipment Packing Credit/ Post Shipment Credit
2.	State Bank of India	96.00	
3.	HSBC Ltd.	90.00	
4.	HDFC Bank Ltd.	90.00	
5.	Citi Bank	85.00	
6.	Bank of Baroda	64.00	
	Total	**525.00**	

CC: Cash Credit

2.B. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Union Bank of India	60.00	LC/BG
2.	Bank of Baroda	53.00	
3.	HDFC Bank Ltd.	40.00	LC/BG; Interchangeable from Non Fund Based to Fund Based Limits
4.	Citi Bank	33.00	

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
5.	State Bank of India	24.00	LC/BG
6.	HSBC Ltd.	20.00	LC/BG; Interchangeable from Non Fund Based to Fund Based Limits
	Total	230.00	

LC/BG:Letter of Credit/ Bank Guarantee

Total Short Term Facilities : Rs.755.00 crore

Total Facilities (1.A+2.A+2.B) : Rs.804.88 crore

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure-5: Name of the companies consolidated with ICIL

Name of the Company	Relationship	Ownership as on March 31, 2020 (%)
Pranavaditya Spinning Mills Limited	Subsidiary	74.53
Indo Count Retail Ventures Private Limited	Subsidiary	100
Indo Count Global Inc., USA	Subsidiary	100
Indo Count UK Limited	Subsidiary	100
Indo Count Australia Pty Limited	Subsidiary	100
Indo Count Global DMCC	Subsidiary	100

Annexure 6: 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

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

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(This follows our brief rationale for entity published on September 23, 2020)

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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