March 22, 2021

Nandan Denim Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Outstanding
Fund-based - Term Loan	390.35	405.35	[ICRA]BBB- reaffirmed; Outlook revised to Stable from Negative
Fund-based - Cash Credit	249.80	265.00	[ICRA]BBB- reaffirmed; Outlook revised to Stable from Negative
Fund-based - EPC/FBD	15.20	-	-
Non-fund based - Letter of Credit/Bank Guarantee	80.00	60.00	[ICRA]A3 reaffirmed
Unallocated Limits	-	5.00	[ICRA]BBB-/A3 reaffirmed; Outlook revised to Stable from Negative
Total	**735.35**	**735.35**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook factors in the revival in demand for Nandan Denim Limited's (NDL) products and the expected improvement in the liquidity position, supported by the sanction of Emergency Credit Lines Guarantee Scheme (ECLGS) 2.0 from its lenders. ICRA also notes that given the improved access to funds, NDL would not be taking up the one-time restructuring of its facilities. Further, the reaffirmation continues to factor in NDL's strong market position as a leader in terms of denim capacity in the domestic denim industry, its diversified product profile and the extensive industry experience of its promoters. The ratings take comfort from NDL's proximity to the cotton growing belt and its higher backward integration within the denim value chain, which positions it better than other competitors and supports its cost structure. ICRA also notes NDL's eligibility to various government incentives on the capex undertaken in the past, which supports its profitability, though their timely receipt remain crucial. The ratings also take comfort from NDL's strong net worth base of Rs. 453.4 crore as on September 30, 2020,

The ratings, however, remain constrained by the significantly weaker-than-expected performance in FY2020 and the current fiscal, which has weakened the company's return and coverage indicators. Owing to the weak demand scenario coupled with the detrimental effects of the pandemic on the company's operations and the damages due to the recent fire incident, the company's operating profitability moderated to 5.0% in 9MFY2021 from 7.7% in FY2020 and 11.0% in FY2019 (~14%-15% in the past years). Further, the ratings continue to be constrained by the inherent cyclicality associated with the textile sector, the prevalent over capacity in the domestic denim industry, and the stiff competition, which continues to pressurise the realisation. The ratings also factor in the vulnerability of the company's profitability to fluctuations in the raw material prices (majorly cotton) and the working capital intensive nature of the company's operations.

The Stable outlook on [ICRA]BBB- reflects ICRA's opinion that the company is expected to maintain its business positioning in the denim industry.

Key rating drivers and their description

Credit strengths

Established market position as one of the largest denim manufacturers - NDL is a part of the Ahmedabad-based Chiripal group, which has been present in the textile business since 1972 and enjoys diversified operations in the textile value chain with manufacturing of partially-oriented yarn (POY), fully drawn yarn (FDY) and draw texturised yarn (DTY), along with fabric processing. NDL has an integrated manufacturing unit, comprising of production facilities from spinning to fabric finishing. NDL has an established market position in the Indian denim industry and is one of the largest denim manufacturers in India, with an installed denim capacity of 110 million meters per annum (MMPA). NDL primarily caters to the low-medium quality denim segment, which has a larger market size than the premium denim segment. NDL has a well-established network of distributors in the domestic market and enjoys strong relationship with clients, attributable to the Chiripal Group's long presence in the textile business.

Proximity to cotton growing belt and backward-integrated operations support operational risk profile - NDL's manufacturing facilities are at Sejpur-Gopalpur in Ahmedabad, in proximity to the cotton growing belt in Gujarat. Further, the backward integrated operations, with the current cotton spinning capacity of 104 tonnes per day (TPD) (reduced from 141 TPD due to fire), enables the company to meet a significant share of yarn requirement from the in-house spinning unit. Consequently, NDL's cost structure and profitability are better managed than that its competitors.

Eligibility under various Government incentive schemes supports overall returns; timely receipt of the same remains crucial - Various sections of capex undertaken by NDL are eligible for incentive schemes for the textile units from the Central and State governments such as interest subsidy on term loan, capital subsidy on plant and machinery, Goods & Service Tax refund and power subsidy. These incentives support the company's overall returns; however, timely receipt of the same remains crucial.

Healthy net worth base - The company has a healthy net worth base of Rs. 453.4 crore as on September 2020, though it moderated from Rs. 490.4 crore as on March 2020, owing to losses in the current fiscal.

Credit challenges

Weakening in profitability, return indicators and coverage indicators – In 9MFY2021, NDL's operating income witnessed a moderation of 41% y-o-y to Rs. 720.1 crore from Rs. 1216.2 crore in 9MFY2020 on account of weak demand scenario and oversupply situation in the denim market, which has resulted in decline in sales volumes and realisations over the years. Coupled with the detrimental effects of the pandemic on the company's operations and the damages due to the recent fire incident, its operating profitability has witnessed significant moderation over the past few years to 5.0% in 9MFY2021 from 7.7% in FY2020 and 11.0% in FY2019 (~14%-15% in the past). Consequently, the return indicators have weakened with RoCE at 3.4% in FY2020. The coverage indicators also moderated because of weak profitability, with Total Debt/OPBDITA at 4.4 times and DSCR at 1.1 times in FY2020.

Prevalent over-capacity in domestic denim industry pressurises realisations – The denim industry has witnessed significant cyclicality in the past, with periods of excess market capacity and tight demand-supply situations. With several capacity additions across the industry, driven by increased denim demand and lucrative government incentives, denim supply has exceeded the demand growth at present, exposing NDL to an over-supply situation in the domestic market. Consequently, NDL has witnessed moderation in average realization of denim fabric to Rs. 120 per metre in FY2020 from Rs. 130 per metre in FY2017; the average realizations further moderated to Rs. 111 per metre caused by pandemic led-demand disruptions during H1 FY2021.

Vulnerability of profitability to adverse fluctuations in key raw material prices – The margins of the company are largely affected by the raw material price fluctuation, which in turn affects the sales realisations. Any adverse movement in the price of key raw materials such as cotton could have an adverse impact on the company's margins, as the company may not be able to pass on the price hike to its customers owing to high competition and overcapacity in the industry.

High working capital intensity - The working capital intensity for NDL has remained high with NWC/OI at 27% as on FY2020-end majorly because of elongated receivables and high inventory holding. The inventory remains high as the company stocks cotton during year-end with expectations of price increase during lean supply. Thus, on one hand, the company remains susceptible to unforeseen corrections to cotton prices, which can lead to inventory losses; on the other hand, a stable price may lead to higher carrying cost without any foreseen benefits.

Liquidity position: Adequate

NDL is likely to report net losses in the current fiscal and thus, its cash accruals are expected to remain inadequate against the impending debt obligations (adjusted for the moratorium availed as per the RBI guidelines). However, the liquidity position is likely to remain adequate supported by the sanction of ECLGS 2.0 from its lenders. Given the improved access to funds, NDL would not be taking up the one-time restructuring of its facilities. Further, the cushion in working capital limits and the absence of any major capex plans in the near to medium term comfort the liquidity.

Rating sensitivities

Positive factors - The ratings may be upgraded if a substantial growth in revenues coupled with a revival in profitability leads to higher-than-expected cash accruals. Additionally, moderation in the working capital intensity, leading to an improvement in the liquidity profile, may also lead to a rating upgrade.

Negative factors - Negative pressure on the company's ratings could arise if demand pressure sustains, leading to further deterioration in the scale and profitability, such that OPBDITA/Interest is less than 2.8 times on a sustained basis. Furthermore, the ratings may be downgraded if any sizeable debt-funded capex or a stretch in the working capital cycle impacts the overall financial risk profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Fabric
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of NDL.

About the company

Incorporated in 1994 by Mr. Vedprakash Chiripal and Mr. Brijmohan Chiripal, Nandan Denim Limited (NDL) (earlier known as Nandan Exim Limited) started with manufacturing, trading and export of textile products. NDL is a part of the Ahmedabad-based Chiripal group, which has presence in various industries such as textiles, education, real estate, packaging and chemicals. In FY2004, the company forayed into the manufacturing of denim fabric and has undertaken periodical expansions since then. At present, NDL has an installed capacity of manufacturing 110 MMPA of denim fabric. NDL also underwent backward integration by installing a cotton spinning unit in FY2011 and increased its capacity to 141 TPD over the years (reduced to 104 TPD due to fire in August 2020). NDL also diversified its product portfolio by setting up a 10 MMPA shirting capacity in FY2014. The company also operates a 15-MW power plant within its premises, which meets its entire power requirements. NDL has two manufacturing facilities at Sejpur-Gopalpur in Ahmedabad (Gujarat).

In 9MFY2021, the company reported a net loss of Rs. 34.0 crore on an OI of Rs. 720.1 crore, against a net profit of Rs. 7.1 crore on a OI of Rs. 1,216.2 crore in 9M FY2020.

Key financial indicators (audited)

GIL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	1,467.9	1,537.5
PAT (Rs. crore)	22.1	(0.5)
OPBDIT/OI (%)	11.0%	7.7%
PAT/OI (%)	1.5%	0.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.5
Total Debt/OPBDIT (times)	3.7	4.4
Interest Coverage (times)	6.0	2.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA

As per CRISIL's rationale dated March 6, 2020, despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or the strategic intent of NDL, which restricts CRISIL's ability to take a forward-looking view on the entity's credit quality. CRISIL believes that the information available on NDL is consistent with 'Scenario 4' outlined in the 'Framework for Assessing Consistency of Information'. Based on the last available information, the rating on the long-term bank facilities of NDL are revised to 'CRISIL BB-/Stable Issuer Not Cooperating' from 'CRISIL BB+/Stable Issuer Not Cooperating' and the short-term rating continues to be 'CRISIL A4+ Issuer Not Cooperating'. CRISIL takes note of the fire accident at NDL's Piplaj plant, which has led to shutdown of the plant, loss of lives, and the arrest of the promoters, directors. The plant shutdown and arrests may have significant impact on liquidity and operations of the company. The quantum and time lag in realisation of insurance claim, length of plant closure, and subsequent start of operations remain key monitorables.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020			Date & Rating in FY2019	Date & Rating in FY2018
					Mar 22, 2021	Dec 4, 2020 Aug 17, 2020	Feb 13, 2020	Feb 4, 2020	Jun 4, 2019	Mar 11, 2019 Aug 23, 2018	Nov 23, 2017 Nov 16, 2017
1	Term Loan	Long-term	405.35	347.62	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+@	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
2	Cash Credit	Long-term	265.00	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+@	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
3	EPC/FBD	Short-term	-	NA	[ICRA]A3	[ICRA]A3	[ICRA]A2@	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Letter of Credit / Bank Guarantee	Short-term	60.00	NA	[ICRA]A3	[ICRA]A3	[ICRA]A2@	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1
5	Unallocated Limits	Long-term/ Short-term	5.00	NA	[ICRA]BBB- (Stable)/A3	-	-	-	-	-	-

Amount in Rs. crore; @ Rating placed on watch with negative implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2015	~10%-11%	FY2027	292.14	[ICRA]BBB-(Stable)
NA	Guaranteed Emergency Credit Line	FY2021	~8.3%-8.35%	FY2026	113.21	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	265.00	[ICRA]BBB-(Stable)
NA	Letter of Credit / Bank Guarantee	NA	NA	NA	60.00	[ICRA]A3
NA	Unallocated Limits	NA	NA	NA	5.00	[ICRA]BBB-(Stable)/A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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