January 24, 2022

Nandan Denim Limited: Ratings upgraded; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Cash Credit	265.00	240.00	[ICRA]BBB (Positive); upgraded from [ICRA] BBB- (Stable); outlook revised to Positive from Stable
Fund based - Term Loan	405.35	326.81	[ICRA]BBB (Positive); upgraded from [ICRA] BBB- (Stable); outlook revised to Positive from Stable
Non-fund Based - Letter of Credit/Bank Guarantee	60.00	60.00	[ICRA]A3+; upgraded from [ICRA]A3
Unallocated Limits	5.00	108.54	[ICRA]BBB (Positive)/[ICRA]A3+; upgraded from [ICRA] BBB- (Stable)/ [ICRA]A3; outlook revised to Positive from Stable
Total	**735.35**	**735.35**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade reflects Nandan Denim Limited's (NDL) healthy recovery and better-than-expected performance in the recent quarters led by improved demand conditions, which has facilitated an improvement in its credit metrics and liquidity profile. With the sector recovering from the pandemic's impact and demand for denim products improving, ICRA expects the improved performance to sustain over the medium term, with the revised rating more closely reflecting an updated view of the company's credit profile. This apart, part of the company's spinning capacity, which got damaged due to a fire, has been reinstated and is likely to support its profitability. The positive outlook reflects ICRA's expectation of a sustained healthy operating performance with improving profitability, which together with limited incremental capital expenditure (capex) plans, receipt of insurance claim and availment of additional ECLGS loans with moratorium, would support a further improvement in the company's coverage metrics and liquidity profile.

The ratings continue to draw strength from NDL's strong market position as one of the leading denim capacities in the domestic market, its diversified product profile and the extensive industry experience of its promoters. The ratings also take comfort from the company's proximity to the cotton-growing belt and its backward integrated operations, which support its cost structure. ICRA also notes NDL's eligibility for various Government incentives on the capex in the past, which supports its profitability, though their timely receipt remains crucial. The ratings, however, remain constrained by the inherent cyclicality associated with the denim sector, susceptibility of profitability to fluctuations in raw material prices (mainly cotton) and the working capital-intensive nature of the company's operations.

Key rating drivers and their description

Credit strengths

Established market position as one of the country's leading denim manufacturers- NDL is part of the Ahmedabad-based Chiripal Group, which has been in the textile business since 1972 and enjoys diversified operations in the textile value chain with manufacturing partially-oriented yarn (POY), fully drawn yarn (FDY) and draw texturised yarn (DTY), along with fabric processing. NDL has an integrated manufacturing unit, comprising production facilities from spinning to fabric finishing. The company has an established market position and is one of the largest denim manufacturers in India, with a 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 its 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 at Sejpur-Gopalpur in Ahmedabad are in proximity to the cotton-growing belt in Gujarat. Further, the backward-integrated operations enable the company to meet a significant share of its yarn requirement from the in-house capacities. While its presence in the spinning segment exposes the company's profitability to volatility in cotton prices, it facilitates cost savings on transportation. Further, as observed in the past, wherein surge in yarn prices has been steeper than the increase in cotton prices, captive yarn capacity reduced the impact on the company's profitability.

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

Improvement in financial risk profile – NDL reported healthy revenues and profitability in H1 FY2022, supported by an improved demand, despite the pandemic-induced challenges. In H1 FY2022, NDL's operating margins rose to 9.2% vis-à-vis operating losses reported in H1 FY2021. This, in turn, has resulted in an improvement in the company's credit metrics, with debt/ OPBDITA, interest cover and DSCR of 3.5 times, 3.4 times and 1.2 times respectively in H1 FY2022, vis-à-vis 5.4 times, 2.4 times and 1 time respectively in FY2021. Together with access to loans under the Government of India's ECLGS scheme which have a moratorium provision, this has resulted in an improved liquidity profile for the company.

Credit challenges

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

High working capital intensity - The working capital intensity for NDL has remained high with NWC/OI at 44% in FY2021-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 the lean season. Thus, on one hand, the company's profitability remains susceptible to unforeseen corrections in 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.

Cyclicality in the denim industry – The denim industry has inherent cyclicality, with periods of excess market capacity and tight demand-supply situations. An oversupply situation exerts pressure on the company's profitability, by adversely affecting the volumes and pricing power in line with the industry trends.

Liquidity position: Adequate

NDL's liquidity profile remains adequate, with availability of free cash and cash equivalents of ~Rs. 25 crore as on December 31, 2021, and an average cushion of Rs. 85 crore in the company's fund-based working capital limits in the six-month period ended November 2021, compared to scheduled repayment obligations of Rs. 89 crore in FY2023. The company's liquidity position has been supported by the interest-free unsecured loans of Rs. 35 crore infused by its promoters in the current fiscal and Rs. 119-crore Covid/ GECL loans availed by the company in FY2021 and FY2022. The Rs. 97-crore loans availed under the ECLGS scheme have a moratorium provision. Overall, ICRA expects NDL to be able to meet its near-term commitments through internal and external sources.

Rating sensitivities

Positive factors – ICRA could upgrade NDL's rating if a) there is a continued growth in revenues and improvement in profitability, supports an improvement in its coverage metrics; b) liquidity profile strengthens, while sustaining a comfortable capital structure. A specific trigger would include a DSCR of more than 1.4 times on a sustained basis.

Negative factors – ICRA could downgrade the ratings if there is a pressure on the operating performance, or any stretch in working capital cycle/ sizeable debt-funded capex adversely impacts the credit metrics and the company's liquidity position.

Analytical approach

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

About the company

Nandan Denim Limited (NDL) (earlier known as Nandan Exim Limited), incorporated in 1994 by Mr. Vedprakash Chiripal and Mr. Brijmohan Chiripal, started with manufacturing, trading and export of textile products. NDL is 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 H1 FY2022, the company reported a net profit of Rs. 32.7 crore on an OI of Rs. 871.2 crore, against a net loss of Rs. 37 crore on an OI of Rs. 406.4 crore in H1 FY2021.

Key financial indicators (audited)

	FY2020	FY2021	H1 FY2022 *
Operating Income (Rs. crore)	1,543.2	1,110.5	871.2
PAT (Rs. crore)	-0.6	-18.7	32.7
OPBDITA/OI (%)	8.1%	9.2%	9.2%
PAT/OI (%)	-0.04%	-1.7%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.5	1.7
Total Debt/OPBDITA (times)	4.2	5.4	3.5
Interest Coverage (times)	2.9	2.4	3.4

**Based on provisional results*

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

S. No	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020			Date & Rating in FY2019
					Jan 24, 2022	Mar 22, 2021	Dec 4, 2020 Aug 17, 2020	Feb 13, 2020	Feb 4, 2020	Jun 4, 2019	Mar 11, 2019 Aug 23, 2018
1	Term Loan	Long-term	326.81	326.81	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ @	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)
2	Cash Credit	Long-term	240.00	-	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ @	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)
3	EPC/FBD	Short-term	-	-	-	-	[ICRA]A3	[ICRA]A2@	[ICRA]A2	[ICRA]A2+	[ICRA]A1
4	Letter of Credit / Bank Guarantee	Short-term	60.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A2@	[ICRA]A2	[ICRA]A2+	[ICRA]A1
5	Unallocated Limits	Long-term/ Short-term	108.54	-	[ICRA]BBB (Positive)/ [ICRA] A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-	-	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Cash Credit	Simple
Fund based - Term Loan	Simple
Non-fund Based - Letter of Credit/Bank Guarantee	Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

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	Fund based - Cash Credit	NA	NA	NA	240.00	[ICRA]BBB (Positive)
NA	Fund based - Term Loan	FY2015	NA	FY2027	326.81	[ICRA]BBB (Positive)
NA	Non-fund Based - Letter of Credit/Bank Guarantee	NA	NA	NA	60.00	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	108.54	[ICRA]BBB (Positive)/ [ICRA]A3+

Source: *NDL*

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

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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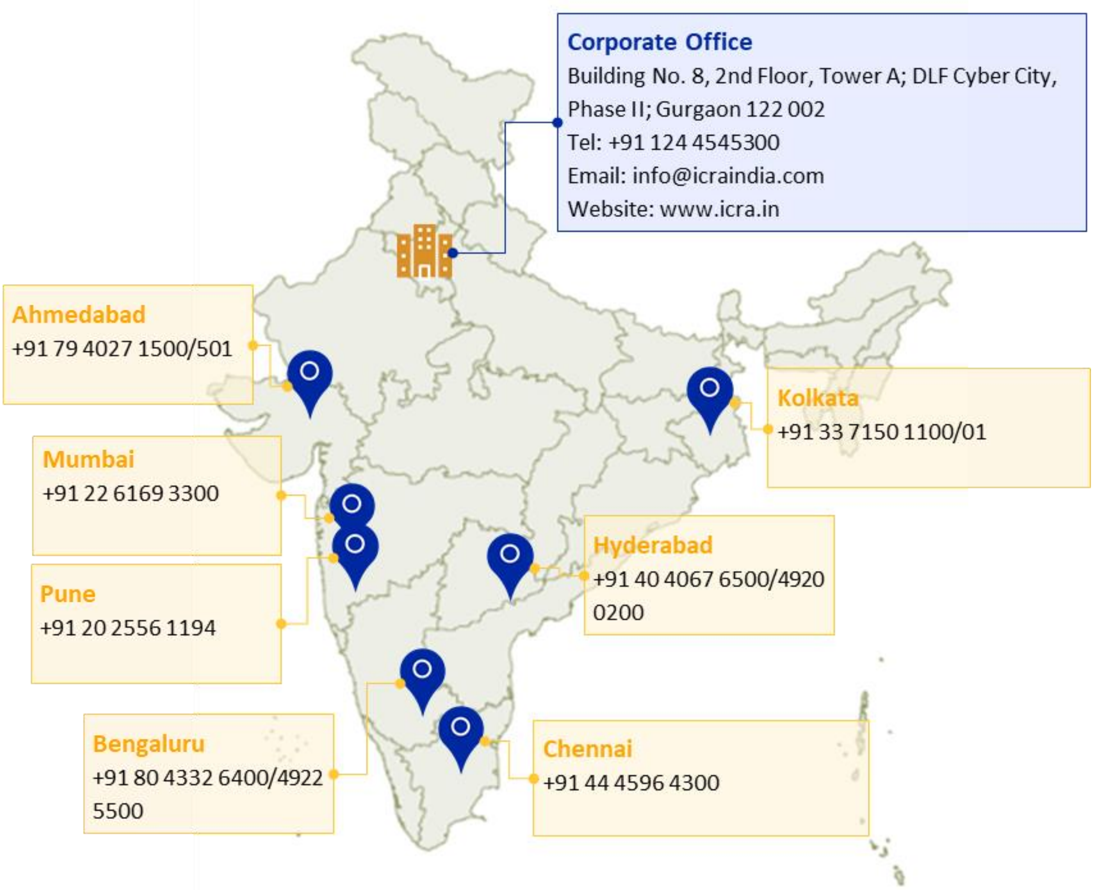

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