May 18, 2022

NMK Textile Mills (India) Private Limited: Ratings upgraded to [ICRA] BBB(Stable)/ [ICRA]A3+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term, fund-based limits	1.0	-	-
Short term, fund-based limits#	16.5	35.0	[ICRA] A3+; upgraded from [ICRA] A3
Long term/ Short term, fund-based limits	-	5.0	[ICRA]BBB(Stable)/[ICRA] A3+; upgraded from [ICRA]BBB- (Stable)/[ICRA] A3
Short term, fund-based limits	(6.0)	-	-
Short term, non-fund- based limits	9.0	-	-
Total	**26.5**	**40.0**	

**Instrument details are provided in Annexure-1*
#Interchangeable facilities

Rationale

The rating upgrade reflects ICRA's expectation that the revenues and profits of NMK Textile Mills (India) Private Limited (NMK) are likely to remain healthy over the medium term, led by steady demand for its products (bed linens) in the key consuming markets of the US and Canada, among others. NMK's revenues have increased during the last three fiscals ending FY2021, at a compounded annual growth rate (CAGR) of 23%, with stable operating profit margin (OPM) in the range of 12-13%. The liquidity position of NMK has also improved in 9M FY2022, backed by its increased collections and enhancement in working capital limits. Additionally, the financial profile of NMK remains comfortable with limited dependence on debt and robust coverage metrices. Healthy revenue growth and steady profitability margins are expected to adequately support the coverage metrics over the medium term. The ratings continue to derive benefit from the promoter's extensive experience in the home textile segment, aiding the company to establish its position in the international as well as domestic markets.

The ratings are, however, constrained by NMK's exposure to customer concentration with a single customer (related party) contributing more than 70-80% to the revenues over the last three years. The company's margins remain vulnerable to volatility in foreign exchange risks as exports account for over 90% of its revenues, though the same is partly mitigated via hedging of 70% of exposure through forward covers. Besides, the profit margins are susceptible to any regulatory changes in the industry and in export incentives. The ratings also consider NMK's presence in the highly fragmented textile industry, characterised by intense competition from well-established domestic and international players in the home furnishing segment, which limits its pricing flexibility.

The Stable outlook on the long-term rating reflects ICRA's opinion that NMK's performance will continue to benefit from the healthy demand for home textiles as well as its experienced management.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in home textiles industry – The Directors of the company, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra, have more than 15 years of experience in the home textiles business and together manage the operations of the company. Their extensive experience has enabled NMK to establish its position in the international as well as domestic markets.

Healthy growth in revenues and profits – During FY2019-FY2022, NMK's revenues have witnessed a CAGR of 23%, led by healthy demand for home textiles in its major markets like the US and Canada. This is expected to sustain in the medium term. The company is estimated to have reported revenues of Rs. 266 crore, excluding export incentives, in FY2022, translating into a YoY growth of 15% vis-à-vis FY2021. Additionally, the OPM has remained steady and stood at 13% in 9M FY2022 (provisional) owing to benefits derived from economies of scale as well as efficient utilisation of production capacity.

Healthy financial profile aided by stable margins and improvement in working capital cycle – The capital structure continues to remain comfortable with a gearing of 0.6 times as on December 31, 2022, supported by improved net worth position on account of high accretion to reserves. Steady profitability resulted in improved coverage indicators with an interest coverage of 9.6 times in 9M FY2022 and total debt vis-à-vis the operating profit of 1.2 times as on December 31, 2021. Besides, the company's receivable days reduced to 52 as on March 31, 2022 (61 days as on December 31, 2021), vis-à-vis 113 days as on March 31, 2021, demonstrating the company's improved debtors' recovery cycle leading to improved liquidity management. Going forward, management is expected to continue its focus on timely collection of receivables by way of reduced credit period.

Credit challenges

Exposure to customer concentration risk – NMK caters primarily to the mid and upper-segment customers predominantly in the US and Canada markets. NMK has a concentrated customer base with a single customer (related party – California Design Den Inc. (CDD), accounting for more than 80% of its revenues in FY2022. Thus, any slowdown in revenues or a stretch in the liquidity position of CDD can adversely impact the financial risk profile of NMK.

Profitability susceptible to forex fluctuations, adverse changes in export incentives and regulatory changes – As exports drive the major portion of NMK's revenues, its profitability remains vulnerable to volatility in foreign currency exchange rates. However, NMK hedges a portion of its exposure using forward covers, which mitigate the forex risk to an extent. NMK is eligible for incentives under the Duty Drawback scheme, and Rebate of State & Central Taxes and Levies (RoSCTL) scheme from the Government of India for exporting its products. The total export incentive received by NMK in 9M FY2022 was 69% of its operating profits (48% in FY2021). Given the high share of export incentives, any adverse change in the same may adversely impact its profit margins. The business also remains highly susceptible to regulatory norms imposed by the Indian and other governments to check imports and exports.

Intense competition from well established players in the home textile segment – NMK is a medium-sized player in the home textiles market, which is characterised by a high degree of competition from many unorganised and organised players in India, as well as overseas competitors from Bangladesh, Pakistan, and China. While unorganised players control the low-grade market, the premium segment of the home textile industry is ruled by a few organised players.

Liquidity position: Adequate

NMK's liquidity has improved to adequate levels, supported by free cash balances of Rs. 20.2 crore, export duty scrips worth Rs. 17 crore (which can be liquidated in the market as and when required) and undrawn fund-based working capital facilities of Rs. 28.5 crore as on March 31, 2022. The average working capital utilisation remained at 77% during the 12-month period ending March 2022. Against this, the annual fixed repayment obligations towards the Guaranteed Emergency Credit Line (GECL) loans are between Rs. 0.2 crore and Rs. 0.6 crore over a period of 3 to 4 years, while unsecured loans do not have any defined repayment schedule. Additionally, the company has not envisaged any debt-funded capital expenditure (capex) plans over the near-to-medium term.

Rating sensitivities

Positive factors – ICRA could upgrade NMK's ratings if there is a sustained significant improvement in its revenues and profitability levels along with diversification of its customer base.

Negative factors – The ratings may be downgraded if there is any sustained weakening in NMK's revenues and profits, which adversely impacts its credit profile. Any large debt-funded capex or a stretch in the working capital cycle, which adversely impacts its liquidity position would also be negative factors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of NMK Textile Mills (India) Private Limited

About the company

Incorporated in 2006, NMK Textiles (India) Private Limited manufactures and trades in bed linen. The Directors of the company, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra have more than a decade of experience in the home textiles segment and collectively manage the operations of the company. NMK's manufacturing facility is located in Bhiwandi, Maharashtra. Exports contributed more than 95% to its total revenues in the past three years. The company caters primarily to the mid and upper-segment customers, predominantly in the US and Canadian markets through California Design Den Inc., and other retail outlets such as Ross Stores Inc., Hudson Bay Co., Fred Meyer Inc., among others.

Key financial indicators (Standalone)

	FY2020 (Audited)	FY2021 (Audited)	9MFY2022 (Provisional)
Operating Income (Rs. crore)	168.6	247.2	241.4
PAT (Rs. crore)	14.1	23.2	27.9
OPBDIT/OI (%)	13.1%	13.7%	13.0%
PAT/OI (%)	8.4%	9.4%	11.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.0	0.7
Total Debt/OPBDIT (times)	0.9	0.9	1.2
Interest Coverage (times)	12.6	10.2	9.6

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

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					18-May-2022	21-May-2021	-	31-Dec-2019
1	Cash Credit	Long term	-	-	-	[ICRA] BBB- (Stable)	-	[ICRA] BBB- (Positive)
2	Export packing credit/ packing credit in rupee currency	Short term	35.0#	-	[ICRA] A3+	[ICRA] A3	-	[ICRA] A3
3	Post shipment loan	Long term/ Short term	5.0	-	[ICRA] BBB (Stable)/[ICRA] A3+		-	-
4	Foreign bills payable	Short term	-	-	-	[ICRA] A3	-	[ICRA] A3
5	Letter of credit	Short term	-	-	-	[ICRA] A3	-	[ICRA] A3

#Interchangeable facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term fund-based limits – Pre-shipment Credit	Simple
Long term/Short term, fund-based limits – Post Shipment Loan	Simple

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	EPC/PCFC				35.0	[ICRA] A3+
NA	Post Shipment Loan				5.0	[ICRA] BBB (Stable)/[ICRA] A3+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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