Nandan Denim Limited

November 16, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	498.03	424.56	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Fund based- Working Capital Facilities	169.80	169.80	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Fund based-Working Capital Facilities (Short term)	15.20	15.20	[ICRA]A1; Upgraded from [ICRA]A2+
Non- Fund based facilities	50.00	50.00	[ICRA]A1; Upgraded from [ICRA]A2+
Total	**733.03**	**659.56**	

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus) for the Rs. 424.56 crore (reduced from Rs. 498.03 crore) term loan facilities and Rs. 169.80 crore working capital facilities of Nandan Denim Limited (NDL or the company)[1]. ICRA has also upgraded the short-term rating to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 15.20-crore[2] short-term fund-based working capital facilities and Rs. 50.00 crore non-fund based bank facilities of NDL. The outlook on the long-term rating is 'Stable'.

Rationale

The upgrade in the ratings reflects NDL's anticipated growth in scale of operations on the back of capacity addition and the higher backward integration within the denim value chain which should allow the the company to better manage its cost structure and improve profitability. Further, the upgrade also factors in the reduced project implementation risks associated with a large capex plan which has been successfully completed by the company. The ratings continue to factor in NDL's strong market position as leader in terms of denim capacity in the domestic denim industry, established distribution network and the extensive industry experience of its promoters. ICRA further notes that the capex undertaken is also eligible for various government incentive schemes which will support profitability going forward.

The ratings continue to be constrained by the inherent cyclicality associated with the textile sector and the prevalent over capacity in the domestic denim industry. Further, the ratings factor in the vulnerability of profitability to fluctuations in the raw material prices (majorly cotton), moderate return indicators as well as working capital intensive nature of NDL's operations.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

Going forward, ICRA believes that NDL's performance will continue to be supported by its established market position in the domestic denim industry, wide distribution network and the extensive industry experience of its promoters. Further, the recently concluded backward integration is expected to allow the company to improve its overall operating profitability and better manage its cost during periods of extreme price volatility. ICRA expects the cash flows to remain under pressure on account of the high repayments due over the next few years. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' in case of decline in revenue or profitability, increase in working capital intensity, any major incremental debt funded capex, extension of direct/indirect support to group entities or reduction/cancellation of any fiscal incentives which may weaken the financial risk profile of the company.

Key rating drivers

Credit strengths

Established market position of NDL as the largest domestic denim manufacturer supported by strong marketing network in domestic markets- The promoters of the NDL, Mr. Vedprakash Chiripal and Mr. Brijmohan Chiripal have more than 40 years of experience in the textile industry. It has an integrated manufacturing unit comprising of production facilities from spinning to fabric finishing in addition to a captive power plant of 15 megawatts (MW). NDL is part of the Chiripal group, which has been present in the textile business since 1972 and has diversified operations in 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 established market position in the Indian denim industry and is the largest denim manufacturer in India with the installed denim capacity of 110 million meters per annum (mmpa). NDL primarily caters to the medium quality denim segment which has a relatively larger market size as compared to the premium denim segment which is mostly targeted to the export markets. NDL has a well established network of distributors in the domestic market and it enjoys strong relationships with clients across several global markets, which is attributable to the Chiripal group's long standing presence in the textile business. The company has tie-ups with about 40 distributors across the country including some exclusive distributors for NDL's products.

Consistent growth in scale, supported by periodical addition to installed capacity; comfortable capacity utilizations levels- The operating income for NDL has grown at a CAGR of 15% over the last five years from Rs. 703 crore in FY13 to Rs. 1220 crore in FY17. The growth has been mainly derived from the strong increase in sales of denim fabric (from 53 mmpa in FY13 to 76 mmpa in FY17) supported by periodical additions to installed capacity. NDL was in regular capex mode during FY12-17 which resulted in increase in the installed capacity from 42 mmpa in FY11 to 110 mmpa in FY17 and has maintained consistent capacity utilisation of around 75-80%.

Operational risk profile to improve further with completion of backward integration; Returns to be further supported by various incentives under the central and state textile policies- In order to backward integrate, NDL, in 2010-11, undertook cotton spinning facility with a capacity of 40 TPD, which was followed by expansion upto 64 TPD in subsequent years and has recently completed its capex to increase capacity to 142 TPD, resulting in ~89% of yarn requirement met from in-house spinning unit. ICRA notes the reduced project implementation risks associated with successful completion of the backward integration, which will help NDL to meet over ~90% of the total spinning requirements in-house. Further, various sections of NDL's capex are eligible for lucrative incentive schemes for the textile units from the Central and State governments in terms of Interest Subsidy on loan availed, Capital Subsidy on Plant and Machinery, Value Added Tax (VAT) refund on eligible fixed investment in plant and machinery and exemptions in power tariff. Altogether, the backward integration along with various incentives is expected to support the operational risk profile going forward.

Credit weaknesses

Moderate return indicators - The return indicators of NDL for FY2017 remained moderate with RoCE at 11.4% compared to FY16 (RoCE at 16.8%) as the company concluded a large part of the capex by December 2016, without the benefits of the same being fully realised during FY2017. Return indicators are expected to improve over the medium term with increase in scale of operations and company realising the benefits of backward integration over the period.

Prevalent overcapacity in the domestic denim industry may pressurise realizations - The denim industry has witnessed significant cyclicality in the past, wherein there have been periods of excess capacity in the market as well as periods with tight demand-supply situations. Over the last 4-5 years, denim demand has increased steadily and with a changing production scenario in China, Indian denim players like NDL have increased their capacity and achieved high utilisation. However, with several capacity additions by other players in the recent past and new players currently in the process of setting up denim capacity, NDL remains exposed to over-supply situation in the domestic market. Currently, NDL generates nearly 90% of its sales from the domestic market and thus its performance will remain exposed to the inherent cyclicality in the denim industry.

Vulnerability of profitability to any adverse fluctuation 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 like 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 competitive intensity and overcapacity in the industry. ICRA believes that NDL's integrated setup would cushion the impact of adverse movements to an extent.

High working capital intensity resulting from high inventory levels - The working capital intensity for NDL has remained high at 20-22% for past three years mainly due to high inventory levels emanating from stocking up of cotton inventory during year end with expectations of price increase during lean supply. Thus, company remains susceptible to any unforeseen correction to cotton prices which can lead to inventory losses or on contrary a stable price may lead to higher carrying cost without any foreseen benefits.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Indian Textiles Industry– Fabric

About the company:

Incorporated in 1994 by Mr. Vedprakash D. Chiripal and Mr. Brijmohan Chiripal, Nandan Denim Limited (NDL) (earlier known as Nandan Exim Limited) was initially engaged in manufacturing, trading and export of textile products – primarily denim products. The company is a part of the Chiripal group, which is based in Ahmedabad (Gujarat), having presence in various industries such as textiles, education, real estate, packaging and chemicals.

The company forayed into manufacturing operations in FY2004 with a project for weaving of denim fabric and the commercial production of 20 million meters per annum (MMPA) capacity of denim fabric was commenced in FY06. With periodic expansions, the installed capacity of denim manufacturing now stands at 110 MMPA. Denim fabrics manufactured by NDL are either made up of 100% cotton yarn or mixed with Lycra, Polyester, etc in weft depending upon the market requirement. NDL also backward integrated by installation of a cotton spinning unit of 40TPD capacity in FY11, which stands increased to 142 TPD in current fiscal. Further, NDL diversified its portfolio by setting up a 10 million meters per annum shirting capacity in March 2014. The company also operates a 15 MW power plant within its premises which meets its entire power requirements. NDL has its manufacturing facilities located at Sejpur-Gopalpur at Ahmedabad.

In FY2017, the company reported a net profit of Rs. 56.67 crore on an operating income of Rs. 1220.21 crore, as compared to a net profit of Rs. 63.32 crore on an operating income of Rs. 1156.73 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	1156.73	1220.41
PAT (Rs. crore)	63.32	56.67
OPBDIT/ OI (%)	16.9%	15.5%
RoCE (%)	16.9%	11.4%
Total Debt/ TNW (times)	1.5	1.5
Total Debt/ OPBDIT (times)	2.7	3.4
Interest coverage (times)	4.7	5.2
NWC/ OI (%)	22%	20%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating November 2017	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 December 2016	Date & Rating in FY2016 September 2015	Date & Rating in FY2015 -
1	Fund based-Term Loan	Long Term	424.56		[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Fund based-Working Capital Facilities	Long Term	169.80		[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	Fund based-Working Capital Facilities	Short Term	15.20		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-
4	Non- Fund based facilities	Short Term	50.00		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-

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 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	Term Loan- 1	07/02/2015	NA	Sep-2025	28.80	[ICRA]A (Stable)
NA	Term Loan- 2	17/09/2012	NA	Sep-2023	31.98	[ICRA]A (Stable)
NA	Term Loan- 3	14/09/2011	NA	Sep-2022	30.02	[ICRA]A (Stable)
NA	Term Loan- 4	27/09/2012	NA	June-2023	27.63	[ICRA]A (Stable)
NA	Term Loan- 5	24/04/2015	NA	Sep-2023	50.18	[ICRA]A (Stable)
NA	Term Loan- 6	09/03/2015	NA	Dec-2025	73.20	[ICRA]A (Stable)
NA	Term Loan- 7	25/04/2014	NA	Dec-2025	43.36	[ICRA]A (Stable)
NA	Term Loan- 8	24/07/2014	NA	Sep-2025	22.47	[ICRA]A (Stable)
NA	Term Loan- 9	26/02/2015	NA	Dec-2025	70.11	[ICRA]A (Stable)
NA	Term Loan- 10	04/14/2014	NA	Dec-2025	46.81	[ICRA]A (Stable)
NA	Fund based-Working Capital Facilities				169.80	[ICRA]A1
NA	Fund based-Working Capital Facilities – Short Term				15.20	[ICRA]A1
NA	Non- Fund based facilities				50.00	[ICRA]A1

Source: Nandan Denim Limited

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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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