Nandan Denim Limited

March 11, 2019

Summary of rating action

Instrument*	Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	470.54	390.35	Reaffirmed at [ICRA]A(Negative)
Fund-based Working Capital Facilities	274.82	249.80	Reaffirmed at [ICRA]A(Negative)
Fund- based Working Capital Facilities (Short term)	15.20	15.20	Reaffirmed at [ICRA]A1
Non- fund based facilities	110.00	80.00	Reaffirmed at [ICRA]A1
Total	**870.56**	**735.35**	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation takes into account the NDL's strong market position as leader in denim capacity in the domestic industry, its superior product portfolio, the established distribution network and the extensive industry experience of its promoters. The ratings take comfort from NDL's higher backward integration within the denim value chain which positions it better compared to its competitors and allows the company to better manage its cost structure. ICRA also notes the capex undertaken in past is eligible for various government incentive schemes which will support profitability going forward, However, the timely receipt of the funds would remain a key monitorable. The ratings also take comfort from NDL's adequate liquidity position, with expected net cash accruals to remain comfortable to meet the scheduled debt repayments, and its access to an undrawn line of credit of around Rs. 60 crore as on December 2018-end.

The ratings are, however, constrained by the weaker than expected performance of NDL in recent quarters as evident from the decline in average realisations and profit margins. NDL's sales volume moderated and the average denim realisation declined to Rs. ~121 per metre in 9MFY2019 from Rs. 131 per metre in FY2018, despite increase in average raw material prices, because of the stiff competition and the prevalent overcapacity in the denim industry. The operating margin in 9MFY2019 declined to 11.7% from 15.5% in 9MFY2018. Further, the ratings continue to be constrained by the inherent cyclicality associated with the textile sector and the vulnerability of profitability to fluctuations in the raw material prices (majorly cotton). The ratings are also constrained by NDL's moderate return indicators as well as the working capital-intensive operation of NDL.

Outlook: Negative

ICRA believes that Nandan Denim Limited (NDL) will continue to benefit from its established presence and the experience of its promoters in the denim industry. The outlook may be revised to Stable if substantial revenue growth, coupled with revival in profitability and better working capital intensity, strengthens the financial risk profile. The ratings may be revised downwards if lower-than-expected growth in scale and further deterioration in profit margins result in lower-than-expected cash accruals or if any sizeable debt-funded capex or a stretch in the working capital stretches the liquidity position and weakens the financial profile of the company.

Key rating drivers

Credit strengths

Established market position as largest domestic denim manufacturer; strong marketing network in domestic markets— The promoters of NDL, Mr. Vedprakash Chiripal and Mr. Brijmohan Chiripal, have more than 40 years of experience in the textile industry. The company has an integrated manufacturing unit, which comprises production facilities from spinning to fabric finishing. Additionally, it has a captive power plant of 15 megawatts (MW). NDL is a part of the Chiripal Group, which has been present in the textile business since 1972 and has diversified operations in the textile value chain. It manufactures partially-oriented yarn (POY), fully drawn yarn (FDY) and draw texturised yarn (DTY); it also processes fabric.

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 metres per annum (mmpa). NDL primarily caters to the medium quality denim segment, which has a larger market size than 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 enjoys strong relationship with clients in several global markets, attributable to the Chiripal Group's long presence in the textile business. The company has tie-ups with about 40 distributors across the country, including some exclusive distributors.

Backward integrated operations to support operational risk profile; timely receipts of various eligible incentives under central and state textile policies remains crucial- In order to backward integrate, NDL took periodical to increase its cotton spinning capacity to 142 TPD from 40 TPD. At present, ~89% of yarn requirement is met from in-house spinning unit. This enables NDL to better manage its cost structure and profitability that its competitors. Further, various sections of NDL's capex are eligible for lucrative Central and state government's incentive schemes such as interest subsidy on loan availed, capital subsidy on plant and machinery(P&M), value added tax (VAT) refund on eligible fixed investment in machinery P&M and exemptions in power tariff, meant for textile units.

Healthy financial risk profile– The financial risk profile remains healthy, marked by a strong net worth base of ~Rs. 483 crore, gearing of 1.2 times as on September 30, 2018, and an adequate liquidity position.

Credit challenges

Weakening in profitability and return indicators– The company's operating profit moderated to 11.7% in 9MFY2019 from ~15.5% in 9MFY2018 due to erosion in denim realisations and volumes. Consequently, the net profit margin also declined to 1.7% in 9MFY2019 from 3.8% in 9MFY2018. The return indicators of NDL continue to remain moderate, with RoCE at 10.8% in FY2018, and is expected to further moderate to ~7-8% in FY2019, due to decline in profitability.

Prevalent over-capacity in domestic denim industry pressurises realisations - 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 four to five years, denim demand has increased steadily and several Indian denim players such as NDL have increased their capacity under the prevailing government incentive scheme. However, with several capacity additions in the recent past, denim supply has exceeded the demand growth, exposing NDL to an over-supply situation in the domestic market. The company's average realisation from denim fabric moderated to Rs. 121 per metre in 9MFY2019 from Rs. 131 per metre in FY2018. Currently, NDL generates majority 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 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 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 competition and overcapacity in the industry. ICRA, however, believes that NDL's integrated setup would help to reduce the impact of such adverse movements to some extent.

High working capital intensity due to extended receivable period and high inventory levels - The working capital intensity for NDL has remained high, at 20-24%, for the past three years mainly due to high inventory caused by stocking of 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. Further, in the current scenario to push sales, the company is extending higher credit period to support sales. The debtor days increased to 77 days as on H1FY2019 end from 42 days as on FY2017, further increasing the working capital cycle.

Liquidity position

Cash flow from operations continues to remain positive, while the free cash flows continued to remain negative in FY2018 due to capex. The company's overall liquidity position remains adequate, marked by sufficient cash accruals (though it will moderate due to moderation in profitability) against debt obligations, free cash of ~Rs. 17.65 crore (As on March 31, 2018) and undrawn line of credit of ~Rs. 60 crore as on December 2018-end.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Indian Textiles Industry– Fabric]
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

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 exporting of textile products—primarily denim products. The company is a part of the Ahmedabad-based Chiripal Group, which has 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 metres per annum (MMPA) capacity of denim fabric was commenced in FY2006. With periodic expansions, the installed capacity of denim manufacturing now stands at 110 MMPA. Denim fabrics manufactured by NDL are either made of 100% cotton yarn or mixed with Lycra, Polyester, and so on in weft, depending on the market requirement. NDL underwent backward integration and installed a cotton spinning unit of 40TPD capacity in FY2011, which now stands at 142 TPD in the current fiscal. Further, NDL diversified its portfolio by setting up a 10-million metre per annum shirting capacity in March 2014. The company also operates a 15-MW power plant within its premise, which meets its entire power requirements. NDL's manufacturing facility is located at Sejpur-Gopalpur in Ahmedabad.

In FY2018, the company reported a net profit of Rs. 47 crore on an operating income of Rs. 1589 crore, compared to a net profit of Rs. 73 crore on an operating income of Rs. 1220 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1220	1589
PAT (Rs. crore)	73	47
OPBDIT/OI (%)	15.3%	14.2%
RoCE (%)	13.1%	10.8%
Total Debt/TNW (times)	1.5	1.3
Total Debt/OPBDIT (times)	3.4	2.8
Interest coverage (times)	5.2	3.9

Status of non-cooperation with previous CRA

CRISIL's rationale dated August 30, 2018.

Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of NDL, thereby restricting CRISIL's ability to take a forward-looking view on the entity's credit quality. CRISIL believes 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 ratings on bank facilities of NDL continues to be 'CRISIL BBB+/Stable/CRISIL A2; Issuer not cooperating'

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) March 2019				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March 2019	Date & Rating in FY2019 August 2018	Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Dec 2016
1	Fund based-Term Loan	Long Term	390.35	**390.35^**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**
2	Fund based-Working Capital Facilities	Long Term	249.80		**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**
3	Fund based-Working Capital Facilities	Short Term	15.20		**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**
4	Non- Fund based facilities	Short Term	80.00		**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**

^Dec 31,2018

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	Feb-2015	NA	Dec-2025	24.78	[ICRA]A(Negative)
NA	Term Loan- 2	Jul-2011	NA	Mar-2020	22.47	[ICRA]A(Negative)
NA	Term Loan- 3	Sep-2011	NA	Sep-2021	22.80	[ICRA]A(Negative)
NA	Term Loan- 4	Oct-2011	NA	Mar-2026	42.03	[ICRA]A(Negative)
NA	Term Loan- 5	Jul-2012	NA	Sep-2023	37.58	[ICRA]A(Negative)
NA	Term Loan- 6	Mar-2015	NA	Dec-2025	64.47	[ICRA]A(Negative)
NA	Term Loan- 7	Jul-2014	NA	Dec-2025	34.37	[ICRA]A(Negative)
NA	Term Loan- 8	Jul-2014	NA	Sep-2025	19.60	[ICRA]A(Negative)
NA	Term Loan- 9	Feb-2015	NA	Dec-2025	60.75	[ICRA]A(Negative)
NA	Term Loan- 10	Dec-2014	NA	Dec-2025	40.50	[ICRA]A(Negative)
NA	Term Loan- 11	Jun-2017	NA	Jun-2027	21.00	[ICRA]A(Negative)
NA	Fund based- Working Capital Facilities				249.80	[ICRA]A1
NA	Fund based-Working Capital Facilities – Short Term				15.20	[ICRA]A1
NA	Non- Fund based facilities				80.00	[ICRA]A1

Source: Nandan Denim Limited

Annexure-2: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Ankit Patel
+91 79 4027 1509
ankit.patel@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999