August 17, 2020

Nandan Denim Limited- Update on recent developments; ratings downgraded to [ICRA]BBB-(Negative)/[ICRA]A3; removed from rating watch with negative implications

Summary of Rated Instrument:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	390.35	390.35	Revised to [ICRA]BBB-(Negative) from [ICRA]BBB+@; removed from rating watch with negative implications
Fund-based Working Capital Facilities	249.80	249.80	Revised to [ICRA]BBB-(Negative) from [ICRA]BBB+@; removed from rating watch with negative implications
Fund-based Working Capital Facilities (Short term)	15.20	15.20	Revised to [ICRA]A3 from [ICRA]A2; removed from rating watch with negative implications
Non-fund based facilities	80.00	80.00	Revised to [ICRA]A3 from [ICRA]A2; removed from rating watch with negative implications
Total	**735.35**	**735.35**	

@ - watch with negative implications

Material Event

Nandan Denim Limited's (NDL or the company) spinning unit (Piplej - Ahmedabad) caught fire on August 08, 2020, resulting in disruption in production and damages to machinery, inventory and factory premises.

Impact of recent developments and Material Event

The long-term and the short-term ratings are revised to [ICRA]BBB-/[ICRA]A3 from [ICRA]BBB+@/[ICRA]A2@ because of the significantly weaker-than-expected performance in FY2020 and the continuing weakness in the current fiscal, both of which have weakened NDL's liquidity and debt coverage. ICRA has removed the rating watch with negative implications, which was put in February 08, 2020, post a fire in the shirting unit, as the company has started operations subsequently with requisite permissions. The company has booked loss for the damage to the inventory and fixed assets and claimed insurance to the tune of Rs 12.86 crore, which remains to be received.

The outlook on the long-term rating is 'Negative' as the dampened demand outlook for the denim industry has resulted in weak demand and low cash flows for the company in the recent quarters. Given the economic slowdown and the resulting lower discretionary spending, NDL's cash flow is expected to remain under pressure in the current fiscal. The rating action also factors in the uncertainties with respect to the loss resulting from the recent fire incident (August 08, 2020) in the spinning unit. While the extent of loss is yet to be fully assessed and the company has an insurance cover, ICRA believes that there can be a material impact on NDL's business operations and cash flows in case of a significant damage/loss. Further, the company has plan to opt for the one-time restructuring as announced by the Reserve Bank of India in its Monetary Policy dated August 6, 2020, given the tough business environment and its high scheduled debt obligations. Accordingly, ICRA will continue to closely monitor these developments and will evaluate the impact on the business and financial profile of NDL once more clarity emerges.

The previous detailed rating rationale is available on the following link: Click here

Rationale

The revision in ratings takes into account the lower-than-expected growth in scale and the moderation in profit margin over the last few quarters, which reduced the expected cash accruals for FY2020 and beyond. The company's operating profit has moderated over the past three years, to 7.98% in FY2020 from 11.11% in FY2019 and 14.6% in FY2018, due to erosion in denim realisations and volumes. The margins are expected to remain under pressure in the near term because of the expected decline in demand resulting from the bleak demand outlook for the denim industry. Consequently, with the moderation in profitability, the return indicators of NDL have further weakened, with RoCE at 3.3% in FY2020. Further, the cash accruals in FY2021 are expected to tightly match the repayments (after factoring in the moratorium availed from bank), thereby weakening the overall liquidity cushion. ICRA also notes that the damage due to the recent fire incident, which remains to be estimated, may also have a material impact on the overall financial risk profile. Further, 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 and the vulnerability of the company's profitability to fluctuations in the raw material prices (majorly cotton) and its working capital-intensive operations.

The ratings, however, continue to positively consider NDL's strong market position as a leader in terms of denim capacity in the domestic denim industry, its 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 than other competitors and supports its cost structure. ICRA also notes the company's strong net worth base of Rs. 490 crore and the gearing of 1.1 times as on March 31, 2020 and also the various government incentive on the capex undertaken in the past, which supports profitability, the timely receipt of which remain crucial.

Key rating drivers

Credit strengths

Established market position as one of the largest denim manufacturers; strong marketing network in domestic markets– The promoters of NDL, i.e, the members of the Chiripal family, 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. In addition to denim fabric, the Group also has fabric processing operations and also manufactures partially-oriented yarn (POY), fully drawn yarn (FDY) and draw texturised yarn (DTY).

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 support operational risk profile; timely receipt of various eligible incentives under central and state textile policies remains crucial– In order to backward integrate, NDL took periodical capex 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), GST (earlier VAT) refund on eligible fixed investment in machinery P&M and exemptions in power tariff, meant for textile units.

Strong net worth – The company had a strong net worth base of Rs. 490 crore and gearing of 1.1 times as on March 31, 2020

Credit challenges

Weakening in profitability, return indicators and liquidity – The company's operating profit has moderated over the past three years to 7.7% in FY2020 compared to 11.0% in FY2019 and 14.6% in FY2018, due to erosion in denim realisations and volumes. The margins are expected to remain under pressure in the near term due to expected decline in demand resulting from bleak outlook of the denim industry. Consequently, with moderation in profitability, the return indicators of NDL has further weakened with RoCE at 3.4% in FY2020. Further, the cash accruals in FY2021 are expected to be tightly matched the repayments and the overall liquidity cushion has also reduced. The damage due to the recent fire incident may also have material impact on the overall financial risk profile.

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 continued to decline, moderating to sub Rs. 120 per metre in current fiscal compared to an average of Rs. 122.57 per metre in FY2019 and 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 current bleak outlook and 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.

High working capital intensity - The working capital intensity for NDL remained high with NWC/OI at 27% as on FY2020-end majorly due to high debtor days and inventory requirements.

Liquidity position: Stretched

NDL's liquidity position remains stretched because of tightly matched accruals against the against debt obligations (after factoring the moratorium availed), though the absence of any major capex and the cushion in working capital limits provide comfort.

Rating sensitivities

Positive triggers – Any near-term upgrade is unlikely. The outlook can be revised to stable if there is an improvement in the cash flows and liquidity, following the improvement in demand outlook.

Negative triggers – Ratings could be downgraded if the existing demand slowdown leads to further deterioration in performance and expected cash flows.

Analytical approach

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

About the company

Incorporated in 1994 by the members of the Chiripal family, Nandan Denim Limited (NDL) (earlier known as Nandan Exim Limited) was initially involved 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), and 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 by installation of a cotton spinning unit of 40TPD capacity in FY2011, which was increased to 142 TPD in the current fiscal. Further, NDL diversified its portfolio by setting up 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 at Sejpur-Gopalpur at Ahmedabad.

The company recorded a net loss of Rs. 0.5 crore on an operating income (OI) of Rs. 1538 crore in FY2020 as against a net profit of Rs. 22 crore on an OI of Rs. 1469 crore in FY2019.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	1469	1538
PAT (Rs. crore)	22	-0.5
OPBDIT/OI (%)	11.1%	7.7%
RoCE (%)	5.3%	3.4%
Total Debt/TNW (times)	1.2	1.1
Total Debt/OPBDIT (times)	3.7	4.4
Interest coverage (times)	6.0	2.7

Status of non-cooperation with previous CRA:

CRISIL's rationale dated March 06, 2020.

Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or 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 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 remains key monitorables.

Any other information: None

Rating history for past three years

	Instrumentx	Current Rating (FY2021)				Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Rating	FY2020			FY2019		FY2018	
					17 August 2020	13 February 2020	04 February 2020	04 June 2019	11 March 2019	23 August 2018	23 Nov 2017	16 Nov 2017
1	Fund based- Term Loan	Long Term	390.35	311^	[ICRA]BBB- (Negative)	[ICRA]BBB+@	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based- Working Capital Facilities	Long Term	249.80		[ICRA]BBB- (Negative)	[ICRA]BBB+@	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund based- Working Capital Facilities	Short Term	15.20		[ICRA]A3	[ICRA]A2@	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non- Fund based facilities	Short Term	80.00		[ICRA]A3	[ICRA]A2@	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Amount in Rs. Crore,^ March 31,2020, @ - 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 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]BBB-(Negative)
NA	Term Loan- 2	Jul-2011	NA	Mar-2020	22.47	[ICRA]BBB-(Negative)
NA	Term Loan- 3	Sep-2011	NA	Sep-2021	22.80	[ICRA]BBB-(Negative)
NA	Term Loan- 4	Oct-2011	NA	Mar-2026	42.03	[ICRA]BBB-(Negative)
NA	Term Loan- 5	Jul-2012	NA	Sep-2023	37.58	[ICRA]BBB-(Negative)
NA	Term Loan- 6	Mar-2015	NA	Dec-2025	64.47	[ICRA]BBB-(Negative)
NA	Term Loan- 7	Jul-2014	NA	Dec-2025	34.37	[ICRA]BBB-(Negative)
NA	Term Loan- 8	Jul-2014	NA	Sep-2025	19.60	[ICRA]BBB-(Negative)
NA	Term Loan- 9	Feb-2015	NA	Dec-2025	60.75	[ICRA]BBB-(Negative)
NA	Term Loan- 10	Dec-2014	NA	Dec-2025	40.50	[ICRA]BBB-(Negative)
NA	Term Loan- 11	Jun-2017	NA	Jun-2027	21.00	[ICRA]BBB-(Negative)
NA	Fund based- Working Capital Facilities				249.80	[ICRA]BBB-(Negative)
NA	Fund based-Working Capital Facilities – Short Term				15.20	[ICRA]A3
NA	Non- Fund based facilities				80.00	[ICRA]A3

Source: Nandan Denim Limited

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

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents