

July 07, 2022

Nandan Terry Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT-Fund based - Term Loans	312.85	297.29	[ICRA]BBB+ (Stable); reaffirmed
LT-Fund based - Cash Credit	70.00	93.00	[ICRA]BBB+ (Stable); reaffirmed/ assigned for enhanced limits
ST- Non fund based Limits	10.00	20.00	[ICRA]A2; reaffirmed/ assigned for enhanced limits
LT-Fund based - Unallocated	10.15	15.12	[ICRA]BBB+ (Stable); reaffirmed/ assigned for enhanced limits
Total	403.00	425.41	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation reflects Nandan Terry Limited's (NTL) healthy operating performance, led by robust demand in the sector, with pandemic-induced lifestyle changes stemming from more consciousness about hygiene and increased prevalence of stay-at-home options. The company's sustained healthy performance since H1 FY2021 led to an improvement in its credit metrics and liquidity profile. The ratings also continue to draw comfort from the extensive experience of the promoters in the textile industry, leading to a successful ramp-up of its operations. The ratings also draw comfort from the company's proximity to the cotton-growing belt and its backward integrated operations, which support its cost structure.

The ratings, however, remain constrained by the working capital intensive nature of the company's operations. Moreover, the ratings factor in the inherent cyclicity associated with the textile sector, susceptibility to slowdown in demand and the vulnerability of NTL's profitability to fluctuations in raw material prices (primarily cotton). Notwithstanding expectations of a healthy performance going forward, sizeable repayment obligations are likely to keep the debt coverage indicators at a moderate level.

The Stable outlook on NTL's long-term rating reflects ICRA's expectation of a sustained healthy operating performance with improving profitability, which would further improve the company's coverage metrics.

While reaffirming/ assigning the ratings, ICRA has noted that NTL has withdrawn its application for its initial public offering (IPO) in June 2022 due to some technical issues faced in the process. Earlier in December 2021, the company had filed Draft Red Herring Prospectus (DRHP) with the Securities and Exchange Board of India (SEBI) for a Rs. 254.96-crore IPO. The proposed capital was planned to be used for repaying debt and for funding working capital requirements of the company. As the timeline of raising the equity was not fixed and the approvals for the same were pending, ICRA had noted the above development, while not factoring in the same in assigning the ratings. ICRA will continue to monitor developments on this front and take appropriate rating action, as and when required.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; a part of the Chiripal Group – The company is a part of the Ahmedabad-based Chiripal Group, which has presence in textiles, education, real estate, packaging, and chemicals industries. NTL's promoters, Mr.

Vedprakash Chiripal and Mr. Brijmohan Chiripal, have more than four decades of experience in the textile industry. ICRA believes that NTL will continue to benefit from its promoters' extensive industry experience.

Strong operating efficiency driven by integrated operations – The backward integrated operations enable NTL to meet a significant share of its yarn requirement from the in-house capacities. It has installed air-jet looms with a towel capacity of 30 tonnes per day (TPD) and a spinning capacity of 37 TPD. After captive consumption, the excess yarn is sold by the company. ICRA notes that NTL undertook expansion capex in FY2022 to meet the gap of 7 TPD between its spinning and terry towel capacities, which would make the unit fully integrated and reduce external sales of yarn. While its presence in the spinning segment exposes the company's profitability to volatility in cotton prices, it facilitates cost savings on transportation.

Significant improvement in scale and comfortable coverage metrics in FY2022 – As per provisional numbers provided by the company, the company's revenues have almost doubled in FY2022, led by robust demand in the sector with pandemic-induced lifestyle changes stemming from heightened consciousness about hygiene and increased prevalence of stay-at-home options. The uptick in the performance started from H2 FY2021 and is expected to remain healthy in the near term, given the current pending order book position. The company's debt coverage metrics also improved, with an interest cover and DSCR of 4.8 times and 1.9 times, respectively in FY2022 compared to 2.8 times and 1.4 times, respectively in FY2021. This apart, ICRA takes comfort from improvement in the adjusted gearing (adjusted for unsecured loans, which are treated as quasi equity based on their interest-free nature and bank covenant to maintain minimum unsecured loans of Rs.179.68 crore in the company during the currency of the bank loans) to 1.7 times as on March 31, 2022 from 2.8 times as on March 31, 2021.

Credit challenges

Working capital intensive nature of operations – The key raw material for towel manufacturing is cotton yarn, for which the company procures cotton, which is a seasonal crop. Like other entities involved in spinning operations, NTL stocks cotton during the harvest season from October to March because of better availability. This results in increased working capital requirements during this period, besides exposing the company to sharp volatility in prices. This is reflected in the company's inventory turnover period remaining high in the range of 50-75 days over the last three years. This apart, the company has a receivable turnover period of around 75-90 days, which keeps its working capital intensity high. However, cushion in the working capital limits provides comfort with respect to the company's ability to meet the near-term requirements.

Vulnerability of profitability to any adverse fluctuation in key raw material prices – The profit margins of the company are largely impacted by the raw material price fluctuation, which affects sales realisations. Any adverse movement in the prices of key raw materials like cotton could have a negative impact on the margins. However, ICRA notes that the company has been able to pass on the increase in prices to its customers in the past.

Exposed to demand slowdown and competition in the home textiles segment – NTL remains susceptible to any major slowdown or changes in import policies in this market, and to fluctuations in forex rates. ICRA notes NTL's export sales are lower than its peers, however, NTL caters to export markets through merchant exporters. Thus, the company remains exposed to the risks of demand in foreign markets indirectly. While export prospects for home textiles are healthy, competition has also increased. Any policy change by competing countries such as China, Pakistan, or Vietnam to boost their exports by modifying local policies or through bi-lateral relationship with importing countries can impact the competitive position of Indian players.

Liquidity position: Adequate

The company's liquidity profile remains **adequate** with availability of free cash and cash equivalents of ~Rs.2 crore as on May 31, 2022, and an average cushion of ~Rs. 35 crore during the 6-month period ending in May 2022 (equivalent to ~44% of the sanctioned lines). Overall, ICRA expects NTL to be able to meet its near-term commitments through internal as well as external sources. ICRA notes that the recent sanction of Rs. 38.3 crore-GECLS loan as well as fresh enhancement of fund-based limits by Rs.23 crore and non-fund based limits by Rs. 10 crore, are expected to provide additional liquidity comfort.

Rating sensitivities

Positive factors – ICRA could upgrade NTL’s ratings if a continued growth in revenues and improvement in profitability improve the coverage metrics. An improvement in the liquidity profile while sustaining a comfortable capital structure may also result in ratings upgrade. Specific trigger that may lead to ratings upgrade include adjusted Total Debt/OPBITDA of less than 2.5 times on a sustained basis.

Negative factors – ICRA could revise the outlook if there is pressure on the operating performance, or any stretch in the working capital cycle or if any sizeable debt-funded capital expenditure adversely impacts the credit metrics and liquidity position of the company. Specific trigger that may lead to ratings downgrade include DSCR of less than 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Textiles (Fabric Making)
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2015, Nandan Terry Limited (NTL) is a vertically integrated towel manufacturer with an installed towel manufacturing capacity of 37 tonnes per day (TPD) at Dholi Integrated Textile Park near Ahmedabad, Gujarat. The plant is equipped with 120 air jet looms. It manufactures towels of various sizes and specifications like jacquard yarn dyed towels, dobby yarn dyed towels etc. The company has also set up a captive spinning unit to meet its cotton yarn requirement. The spinning unit has 24,408 spindles and 960 rotors. The company is a part of the Ahmedabad-based Chiripal Group, which has presence in textiles, education, real estate, packaging, and chemicals industries.

Key financial indicators (audited/provisional)

	FY2021	FY2022*
Operating income (Rs. crore)	538.5	1,054.7
PAT (Rs. crore)	20.0	63.0
OPBDIT/OI	15.3%	13.5%
PAT/OI	3.7%	6.0%
Total outside liabilities/Tangible net worth (times)	4.7	3.9
Total debt/OPBDIT (times)	6.3	3.7
Interest coverage (times)	2.8	4.8

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

*Based on provisional results for FY2022

Source: NTL

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

S. No	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on May 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jul 7, 2022	May 2, 2022	Oct 8, 2021	Aug 28, 2020	May 21, 2019
1	LT-Fund based - Term Loans	Long-term	297.29	297.29	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING	[ICRA]BB+ (Stable); ISSUER NOT-COOPERATING
2	LT-Fund based - Cash Credit	Long-term	93.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
3	ST- Non fund based Limits	Short-term	20.00	-	[ICRA]A2	[ICRA]A2	-	-	-
4	ST- Interchangeable	Short-term	-	-	-	-	[ICRA]A4; ISSUER NOT-COOPERATING	[ICRA]A4; ISSUER NOT-COOPERATING	[ICRA]A4+; ISSUER NOT-COOPERATING
5	LT-Fund based - Unallocated	Long-term	15.12	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
LT-Fund based - Term Loans	Simple
LT-Fund based - Cash Credit	Simple
ST- Non fund based Limits	Very Simple
LT-Fund based - Unallocated	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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	LT-Fund based - Term Loans	FY2018	NA	FY2028	297.29	[ICRA]BBB+ (Stable)
NA	LT-Fund based - Cash Credit	NA	NA	NA	93.00	[ICRA]BBB+ (Stable)
NA	ST- Non fund based Limits	NA	NA	NA	20.00	[ICRA]A2
NA	LT-Fund based - Unallocated	NA	NA	NA	15.12	[ICRA]BBB+ (Stable)

Source: NTL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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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.

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Branches



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