September 28, 2023

Nandan Industries Private Limited: Ratings downgraded to [ICRA]BBB/[ICRA]A3+; continue on Rating Watch with Negative Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Term Loans	55.79	55.79	[ICRA]BBB continue on Rating Watch with Negative Implications; Rating downgraded from [ICRA]BBB+ Rating Watch with Negative Implications
Fund Based- Cash Credit	15.00	15.00	[ICRA]BBB continue on Rating Watch with Negative Implications; Rating downgraded from [ICRA]BBB+ Rating Watch with Negative Implications
Non-Fund Based	6.00	6.00	[ICRA]A3+ continue on Rating Watch with Negative Implications Rating downgraded from [ICRA]A2; Rating Watch with Negative Implications
Unallocated	3.3	3.3	[ICRA]BBB continue on Rating Watch with Negative Implications/[ICRA]A3+ continue on Rating Watch with Negative Implications; Ratings downgraded from [ICRA]BBB+ Rating Watch with Negative Implications/[ICRA]A2; Rating Watch with Negative Implications
Total	**80.09**	**80.09**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the ratings, ICRA has consolidated the financials of Vishal Fabrics Limited (VFL) and its four associate concerns — Dholi Spintex Private Limited (DSPL), Chiripal Textile Mills Private Limited (CTMPL), Nandan Industries Private Limited (NIPL) and Quality Exim Private Limited (QEPL) — owing to substantial business, financial and managerial interlinkages among these entities. These entities are collectively referred to as the Group. The analytical approach follows the demonstrated track record of adherence to sales arrangement among the above mentioned companies. While VFL sells the final product (denim fabric) to external customers, the other four associate companies provide backward integration and supply intermediate products to VFL. There are significant operational linkages and fungibility of cash flows among these companies.

The ratings downgrade factors in the overall weakening in the financial risk profile and operating profitability of the Group, mainly on account of a deterioration in the financial performance of VFL in FY2023 and Q1 FY2024. Besides, ICRA anticipates that the Group’s performance would continue to moderate in the current fiscal, given the weak operating environment for players in the domestic denim segment and muted demand from the export markets. VFL’s operating income fell ~26% to Rs. 328 crore, which was higher than anticipated, and its EBITDA margin reduced by 340 bps to 6.4% in Q1 FY2024 on a YoY basis. Besides, its net cash accruals (NCA) had reduced to ~Rs.11.4 crore in Q1 FY2024 from Rs.27 crore in Q1 FY2023, leading to lower cash generated from business operations. The interest coverage of VFL has also weakened with the same, deteriorating to 2.3 times in Q1 FY2024 from 4.2 times in Q1 FY2023. The Group’s liquidity profile continues to be stretched due to a moderation in profitability both in FY2023 and in Q1 FY2024. Given the weak net cash accruals in Q1 FY2024, weak operating environment for players in the denim segment and the Group’s sizeable repayments in the current fiscal, the other coverage metrics of the company/Group are likely to be affected.

However, the ratings continue to draw comfort from the established experience of the Group's promoters in the textile industry, especially in denim fabric manufacturing, leading to a successful ramp-up of its operations. The ratings also draw comfort from its significant backward integration within the denim value chain, which lends competitive advantage against its peers. This also allows the Group to manage its cost structure better, besides offering logistical advantages as its plants are located in the cotton growing belt of Gujarat and in a textile park. However, the ratings continue to be constrained by the leveraged capital structure and working capital intensive nature of operations. Moreover, the ratings factor in the inherent cyclicality associated with the textile sector and the vulnerability of its profitability to fluctuations in raw material prices (primarily cotton). The ratings note the pressure on its profitability because of stiff competition and the prevalent overcapacity in the denim industry.

The continuation of the ratings under Watch with Negative Implications reflects the uncertainty around the impact on the company/promoter Group due to the Securities Board of India's (SEBI) Interim Order-cum-Show Cause Notice in the matter of Vishal Fabrics Ltd., released on June 19, 2023. As per SEBI's notice, the identified individuals from the Chiripal Group and other involved entities/individuals were jointly liable for wrongful gains generated in the scrip of VFL to the tune of ~Rs.32 crore. ICRA will continue to monitor developments related to the matter as well as the company's operational and financial performances and will resolve the Watch as more clarity emerges on the issue along with its impact on the company/promoter Group.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters and financial flexibility for being a part of the Chiripal Group – The Group's promoters, Mr. Vedprakash Chiripal and Mr. Brijmohan Chiripal, have more than four decades of experience in the textile industry. The Group of five entities is a part of the Chiripal Group, which has been present in the textile business since 1972 and enjoys diversified operations in the textile value chain with manufacturing of partially-oriented yarn (POY), fully drawn yarn (FDY) and draw texturised yarn (DTY), along with fabric processing. ICRA believes that the Group will continue to benefit from its promoters' extensive industry experience. The management has demonstrated its ability to leverage its experience and quickly ramp up capacities in the past.

Manufacturing facility located in proximity to cotton growing belt and backward integrated operations support operational risk profile – The Group's manufacturing facilities are located at Dholi Integrated Textile Park (DITP) in Dholka, Ahmedabad (Gujarat), in proximity to the cotton growing belt in Gujarat. To backward integrate its operations, the Group has established entities in spinning, dyeing, weaving and processing, which enable better management of its cost structure and aid in higher profitability against its competitors. VFL sources yarn from its Group companies in DITP, such as Chiripal Industries Limited and DSPL. Dyed yarn is sold to weaving entities such as CTMPL, NIPL and QEPL. The woven fabric is sold back to VFL, which further processes and sells it to apparel manufacturers and convertors across the country.

Credit challenges

Moderation in financial risk profile from deterioration in coverage metrics – The overall debt levels have remained high due to the debt-funded capex undertaken in the past fiscals for setting up of capacities. Moreover, the Group had availed additional sanctions of more than ~Rs. 200 crore in the previous fiscals, under various Covid relief schemes announced by the RBI in the previous fiscals to shore up its liquidity. While the incremental loans supported the Group's liquidity, these also resulted in a further increase in its repayment obligations in the near-to-medium term. Notwithstanding the improvement in the Group's scale and profits, high repayment obligations in the current fiscal and FY2025 are likely to keep its coverage metrics modest. In this context, some comfort is drawn from the Group's expected moderate cash profits generation in the medium term and group's intent on reducing its debt exposure by using the surplus liquidity for making prepayments of its term loans, as demonstrated in the previous fiscal. With no major debt raising plans incrementally and repayments scheduled to decline from FY2026, the coverage metrics are projected to improve in the medium term.

High working capital intensity – The Group's operations are working capital intensive with year-end NWC/OI consistently remaining above 40%. The working capital intensity has remained high mainly because of elongated receivables and high inventory holding, in the recent past. The inventory remains high as the company stocks cotton during the year-end with expectations of price increase during the lean season. Thus, on one hand, the company's profitability remains susceptible to unforeseen corrections in cotton prices, which can lead to inventory losses, on the other hand, a stable price may lead to higher carrying costs without any foreseen benefits.

Demand-supply challenges in the denim industry – The denim industry has witnessed significant cyclicality in the past, with periods of excess capacity in the market as well as of tight demand-supply situations. As a result, the Group remains exposed to the risk of over-supply in the domestic market.

Vulnerability of profitability to any adverse fluctuation in key raw material prices – The Group's margins are primarily affected by the raw material price fluctuation, which affects sales realisations. Any adverse movement in the price of key raw materials, such as cotton, could have an adverse impact on the Group's margins, as it may not be able to pass on the price hike to its customers owing to stiff competition and overcapacity in the industry. However, some comfort is drawn from the Group's integrated set-up, which would cushion the impact of adverse movement of raw materials to an extent.

Liquidity position: Stretched

The Group's liquidity position is stretched, as reflected from the utilisation averaging at ~80% of the sanctioned limits in the six-month period ended in July 2023 with peak utilisation of up to 95% in some of the months for the rated entities. With enhancement of limits in VFL and CTMPL, the average cushion improved to ~Rs.60 crore in the six-month period ended in July 2023. While the Group's repayments are sizeable in the near-to-medium term, it does not have any major incremental capex plan during the period. With pressure on the operating performance in the current fiscal, ICRA expects that the Group will be able to meet its near-term commitments through internal as well as external sources.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a significant and sustained improvement in its scale of operations as well as profitability, resulting in improved coverage metrics and liquidity profile.

Negative factors – The ratings could be downgraded if sustained performance pressure and/or a stretch in the working capital intensity result in weakening of the Group's coverage metrics and liquidity profile. Inability to reduce Debt/ OPBDITA to less than 3 times on a sustained basis could also trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Textiles (Spinning) Rating Methodology -Textiles (Fabric making)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them

About the company

Nandan Industries Private Limited, incorporated in 1994, has an 80-airjet looms manufacturing facility at its fabric weaving plant in Dholi, Ahmedabad, Gujarat. The company is part of the Ahmedabad-based Chiripal Group, which enjoys a presence in industries such as textiles, education, real estate, packaging and chemicals. NIPL commissioned its plant in April 2018.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	884	1,753
PAT	32	109
OPBDIT/OI	20.5%	16.2%
PAT/OI	3.6%	6%
Total outside liabilities/Tangible net worth (times)	2.1	1.8
Total debt/OPBDIT (times)	5.1	3.2
Interest coverage (times)	2.5	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Sep 28, 2023	Jun 28, 2023	Dec 19, 2022	Aug 03, 2022	Mar 31, 2022	Apr 20, 2021	Jun 15, 2020
1	**Term loans**	Long term	55.79	56.13	[ICRA]BBB Rating Watch with Negative Implication	[ICRA]BBB+ Rating Watch with Negative Implication	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
2	**Cash Credit**	Long term	15.00	-	[ICRA]BBB Rating Watch with Negative Implication	[ICRA]BBB+ Rating Watch with Negative Implication	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
3	**Non-Fund Based**	short term	6.00	-	[ICRA]A3+ Rating Watch with Negative Implication	[ICRA]A2 Rating Watch with Negative Implication	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	**Unallocated**	Long term and short term	3.3	-	[ICRA]BBB Rating Watch with Negative Implication /[ICRA]A3+ Rating Watch with Negative Implication	[ICRA]BBB+ Rating Watch with Negative Implication /[ICRA]A2 Rating Watch with Negative Implication	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

*Outstanding as on March 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Term Loan	Simple
Long term - Fund Based-Cash Credit	Simple
Short term -Non-Fund Based	Very Simple
Long term/Short Term - Unallocated	NA

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Term Loan	FY2018	NA	FY2028	55.79	[ICRA]BBB Rating watch with negative implications
NA	Fund based – Cash Credit	NA	NA	NA	15.00	[ICRA]BBB Rating watch with negative implications
NA	Non-Fund Based	NA	NA	NA	6.00	[ICRA]A3+ Rating watch with negative implications
NA	Unallocated	NA	NA	NA	3.3	[ICRA]BBB Rating watch with negative implications / [ICRA]A3+ Rating watch with negative implications

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	NIPL Ownership	Consolidation Approach
Chiripal Textile Mills Private Limited	NA	Full Consolidation
Dholi Spintex Private Limited	NA	Full Consolidation
Vishal Fabrics Limited	NA	Full Consolidation
Quality Exim Private Limited	NA	Full Consolidation
Nandan Industries Private Limited	NA	Full Consolidation

Note: *For arriving at the ratings, ICRA has consolidated the financials of above group entities, given the close business, financial and managerial linkages among them.*

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About ICRA Limited:

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