

May 28, 2024

## Indo Count Industries Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                               | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                            |
|---|--------------------------------------|-------------------------------------|--|
| Long-term - Fund-based – Term Loans       | 358.51                               | 246.06                              | [ICRA]AA- (Stable); reaffirmed           |
| Long-term - Fund based – Cash Credit      | 1,260.00                             | 1,260.00                            | [ICRA]AA- (Stable); reaffirmed           |
| Short-term - non-fund-based limits        | 137.00                               | 137.00                              | [ICRA]A1+; reaffirmed                    |
| Long term/short-term – Unallocated Limits | 7.85                                 | 120.30                              | [ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed |
| <b>Total</b>                              | <b>1,763.36</b>                      | <b>1,763.36</b>                     |  |

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation considers an improved performance of Indo Count Industries Limited (ICIL) in FY2024, as reflected by a 19% revenue growth and an expansion of the operating margin by ~90 basis points in FY2024 on a YoY basis, vis-à-vis stagnant revenues and margin contraction witnessed in FY2023. The global demand of home textile products witnessed a slowdown in FY2023, on the back of destocking by large format retailers amid recessionary pressure in the US and Europe and an increase in raw material (mainly cotton) prices. Unlike a revenue decline reported by many other prominent peers in the segment, ICIL recorded a marginal revenue growth (3%) in FY2023 owing to additional sales from the Bhilad (Gujarat) unit acquired in April 2022. However, its operating margin declined to 15.5% in FY2023 from an elevated operating margin of 18.7% in FY2022, which had been supported by industry tailwind. Muted demand, high raw material prices and an increase in operational cost after acquisition of the Bhilad unit contributed to the margin contraction in FY2023. However, the company's sales volume surged by 30% in FY2024 on a YoY basis, aided by capacity expansion in the previous year and improved demand amid softening of cotton prices. The volume-driven cost benefits and softening of input prices led to ICIL's margin expansion in FY2024. Nevertheless, a sustained improvement in demand from the key market (US) will remain critical for ICIL's future performance.

The ratings favourably factor in ICIL's established position as one of India's leading home textiles exporters and long-term relationships with key customers, which mitigate client attrition risks and lend stability to its revenue stream. The extensive experience of its promoters in the industry also continues to support the ratings. The company's increasing backward integration and economies of scale are likely to support the margins, going forward. The ratings also consider ICIL's conservative capital structure, comfortable debt coverage metrics and adequate liquidity buffer despite a sizeable cash outlay of ~Rs. 1,100 crore since FY2022 for acquisition of the Bhilad unit along with expansion of the processing and spinning capacities.

The ratings, however, continue to remain constrained by the high geographical and customer concentration of revenue, with exports to the US accounting for about 70% of the revenue and the top-3 customers accounting for ~40% of revenue in 9M FY2024. These expose the company to geo-political risks and the risk of loss of a major customer impacting its revenue. However, the geographical diversification of its revenue is likely to improve over the medium term. The company's recent acquisition of the 'Wamsutta' brand in the US, through its subsidiary, is also likely to diversify the product portfolio, going forward. The ratings continue to factor in the working capital-intensive nature of business due to high stocking requirements owing to seasonal availability of raw material (cotton), notwithstanding a decline in the inventory days and the overall working capital intensity in FY2023 from an elevated level witnessed in FY2022, with easing of supply chain bottlenecks. The vulnerability of ICIL's revenue and earnings to volatility in cotton prices and fluctuation in foreign exchange rates also constrain the ratings to an extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that ICIL's revenues and profitability are likely to remain healthy in the near-to-medium term, given its expanded capacity, providing scope for scaling up and product line extension, and moderation in input costs. The company's capital structure, debt coverage metrics and liquidity are also likely to remain comfortable in the absence of any plan for large debt-funded capex.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters and established presence in the home textile industry** – The company continues to benefit from over three decades of experience of its promoters in the textile business. ICIL was incorporated by Mr. Anil Kumar Jain, Executive Director, in 1988, as an export-oriented spinning unit and has expanded over the years to become a full-fledged home textile manufacturer. Its product portfolio includes bed sheets along with value-added institutional, fashion and utility bedding categories.

**Long-term relationships with reputed clientele** – ICIL's major customers include global big-box retailers in the US, Canada and Europe such as Walmart, Costco, Kohl's, JC Penney among others. ICIL differentiates itself from competitors through its track record of superior product quality and timely execution of contracts. The company enjoys established and long-term relationships with its key customers, which are expected to continue to translate into high repeat orders, thereby contributing to revenue visibility and operational stability.

**Strong financial profile with conservative capital structure, comfortable coverage metrics and an adequate liquidity position** – ICIL's capital structure remains comfortable with a healthy net worth base (Rs. 2,089 crore as of March 31, 2024) despite debt-funded acquisition and sizable capex in FY2022 and FY2023. Its gearing stood at 0.5 times as on March 31, 2024, and the peak gearing remained below 1 times (0.8 times as on March 31, 2022) since FY2019. The coverage metrics remained healthy in FY2024 with an interest cover of 8.6 times (7.5 times in FY2023) and DSCR of 3.9 times (4.2 times in FY2023). The company's total debt/ OPBDITA improved to 1.6 times in FY2024 from 1.9 times in FY2023, and is likely to improve further going forward, with repayment of term loans and an expected rise in profits.

**Performance rebound in FY2024 with healthy sales volume growth, backed by increased capacity and improved demand** – The global demand of home textile products witnessed a slowdown in FY2023 on the back of destocking by large format retailers amid recessionary pressure in the US and Europe and an increase in raw material prices. Unlike a revenue decline reported by many other prominent peers in the segment, ICIL recorded a marginal revenue growth (3%) in FY2023 owing to additional sales from the Bhilad (Gujarat) unit acquired in April 2022. However, its operating margin declined to 15.5% in FY2023 from an elevated operating margin of 18.7% in FY2022, which had been supported by industry tailwind. Muted demand, high raw material prices and an increase in operational cost after acquisition of the Bhilad unit contributed to the margin contraction in FY2023. However, the company's sales volume surged by 30% in FY2024 on a YoY basis, aided by capacity expansion in the previous year and improved demand with softening of cotton prices. This led to a 19% growth in ICIL's operating income in FY2024, despite a dip in realisation by 9% on a YoY basis. The cost benefits arising from higher capacity utilisation and softening of input prices led to an increase in ICIL's operating margin by ~90 basis points in FY2024. The company's improved revenues and healthy profitability are likely to sustain in the near-to-medium term.

### Credit challenges

**Significant geographical and customer concentration of revenue; ICIL's future performance will hinge on sustained demand growth from the key US market** – ICIL's sales exhibit high degree of geographical and customer concentration with the US accounting for ~70% of its operating income and the top-3 customers accounting for ~40% of revenues currently. Loss of any major customer could have a material impact on ICIL's revenue and growth prospects. However, long and established relationships with major customers mitigates client attrition risks to an extent. ICRA notes the company's plans to diversify its revenue by exploring new geographies and expanding its product portfolio to broaden its revenue. Nevertheless, the company's performance will remain dependent on sustainability of demand growth from the US, its key market.

**High working capital intensity of operations due to significant stocking requirements, albeit order-backed inventory** – ICIL’s operations remain working capital intensive due to the need for large stocking of raw materials owing to seasonal availability of cotton. The company’s working capital intensity, measured by the net working capital to operating income (NWC/OI), increased to 54% in FY2022 due to supply chain disruptions. Its NWC/OI moderated to 39% in FY2023 as the inventory days declined to 146 from 185 in the previous year, with easing of the supply chain related challenges. However, ICIL’s NWC/OI increased to some extent to 42% in FY2024, and ICRA expects the metric to remain above 40%, going forward. While the high inventory levels impact the company’s return metrics to an extent, an order-backed stocking policy mitigates inventory write-down risks.

**Vulnerability of revenues and earnings to volatility in raw material prices, foreign exchange rates and changes in export incentives offered by the Government** – ICIL’s revenue and earnings are exposed to the risks arising from volatility in prices of cotton, yarn and fabric. Being a net exporter, the company is also exposed to foreign currency fluctuation risks, which could impact its margins in times of high volatility in exchange rates. Nevertheless, the company is currently following a defined policy of hedging 50-60% of its exposure, and the net unhedged exposure remains limited compared to its operating profit. ICIL’s margins are also exposed to the risks of changes in the Government’s export incentive scheme. Over the last few years, export incentives accounted for 40-50% of ICIL’s operating profits and any reduction could impact the margin profile of the business. However, extension of the existing incentive structure till March 2026 provides comfort.

### Environmental and social risks

**Environmental considerations** – ICIL’s key raw material (cotton) is an agricultural commodity, availability and prices of which are susceptible to agro-climatic risks, which could impact its profitability. Moreover, textile processing is a water-intensive activity, which exposes ICIL’s business to risks emanating from unavailability of water in the plant’s vicinity. Dyeing of fabric is also a major source of water pollution and its two ancillary activities – spinning and weaving – are sources of noise pollution. These expose ICIL to the tightening of pollution control norms along with operational and financial implications from non-compliance of existing regulations. However, the company has taken steps including installation of effluent treatment plant, water recycling facilities and noise cancelling systems to mitigate the risks to an extent.

**Social considerations** – ICIL is exposed to social risks such as compliance (or the lack of it) with health and safety standards mandated by the Government and various regulatory bodies. Further, it is exposed to the adverse consequences arising from shifting societal trends and consumer preference to sustainable products, which could translate into substantial investments required by the company. However, the company’s focus on sustainability across the value chain from procurement to packaging, aid in risk mitigation to an extent.

### Liquidity position: Adequate

ICIL’s liquidity continues to remain adequate. The company maintains Rs. 150-200 crore free cash and bank balances and liquid investments as a policy. It has a healthy buffer (~Rs. 300 crore as of January 2024) in the form of unutilised working capital limits. ICIL’s cash flow from operations is likely to remain at a healthy level of above ~Rs. 200 crore in FY2025, and improve further in FY2026. Compared to this, it has moderate debt repayment obligations (~Rs. 60 crore excluding lease liabilities in FY2025). Currently, ICIL does not have any major capex plan, following the sizeable cash outlay of ~Rs. 1,100 crore for acquisition of the Bhilad unit and capacity expansion of the existing plants, majorly incurred in FY2022 and FY2023. In FY2024, the company incurred a capex of ~Rs. 135 crore (excluding leases), out of which ~Rs. 40 crore was spent for a captive solar power plant at Bhilad. In the current fiscal, ICIL has incurred ~Rs. 85 crore for acquisition of the Wamsutta brand via its US-based subsidiary, and is likely to incur a normal capex of Rs. 60-70 crore per annum in the near-to-medium term.

### Rating sensitivities

**Positive factors** – ICRA could upgrade ICIL’s ratings in case of a substantial and sustained increase in scale of operations coupled with improving diversification of revenue while maintaining a healthy capital structure and comfortable coverage metrics.

**Negative factors** – Pressure on ICIL’s ratings could arise in case of a significant decline in revenue and/or profitability, translating into weakening debt protection metrics and liquidity on a sustained basis. Any large unanticipated debt-funded capital expenditure, an increase in working capital cycle, and/or loss of a major customer impacting the company’s financial risk profile could also put pressure on the ratings. Specific credit metrics which could result in ratings downgrade include total debt/OPBDITA above 1.5 times on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Textiles - Fabric</a>  |
| Parent/Group support            | Not applicable  |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the consolidated financials of ICIL. The company has four subsidiaries, which are all enlisted in Annexure-II. |

## About the company

Indo Count Industries Limited (ICIL) was incorporated in 1988 as a cotton yarn manufacturer and commenced production at its export-oriented spinning unit in 1991 with an installed capacity of ~30,000 spindles. In 2006, ICIL commenced forward integration of its operations by setting up a home textiles manufacturing unit in Kolhapur, Maharashtra with an installed capacity of ~36 million metres per annum. Over the years, the company has transformed itself into one of India’s leading exporters of bed linen. In April 2022, ICIL completed the acquisition of GHCL’s home textile unit in Bhilad, Gujarat with an installed capacity of 45 million metres per annum along with commensurate cut and sew capacity. The company has also increased the processing capacity of its existing unit in Kolhapur by 18 million metres per annum, taking the total installed capacity to 153 million metres per annum. The company also has weaving and spinning facilities which partially meet its requirements of yarn and grey fabric internally. The spinning unit (Pranavaditya Spinning Mills Limited) in Kolhapur was acquired in 2007 and merged with the company subsequently, w.e.f. October 20, 2022. The company has increased the capacity of the spinning division as well, in the recent past. ICIL is listed on NSE and BSE.

ICIL has four 100% subsidiaries based in India, the US, the UK and the UAE, which do not have any manufacturing operation and are mainly involved in trading of products supplied by ICIL in the respective countries.

## Key financial indicators (audited)

| Indo Count Industries Limited (Consolidated)         | FY2022 | FY2023 | FY2024 |
|--|--------|--------|--------|
| Operating income                                     | 2,943  | 3,025  | 3,588  |
| PAT  | 359    | 277    | 338    |
| OPBDIT/OI  | 18.7%  | 15.5%  | 16.4%  |
| PAT/OI   | 12.2%  | 9.2%   | 9.4%   |
| Total outside liabilities/Tangible net worth (times) | 1.1    | 0.7    | 0.7    |
| Total debt/OPBDIT (times)                            | 2.4    | 1.9    | 1.6    |
| Interest coverage (times)                            | 11.6   | 7.5    | 8.4    |

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              | Type                 | Current rating (FY2025)  |   | Chronology of rating history for the past 3 years |                         |                                  |                         |
|-------------------------|----------------------|--------------------------|---|---|-------------------------|----------------------------------|-------------------------|
|                         |                      | Amount rated (Rs. crore) | Amount outstanding as of Jan 31, 2024 (Rs. crore) | Date & rating in FY2025                           | Date & rating in FY2024 | Date & rating in FY2023          | Date & rating in FY2022 |
|                         |                      |                          |   | May 28, 2024                                      | -                       | Feb 16, 2023                     | Jan 10, 2022            |
| 1 Term loans            | Long-term            | 246.06                   | 201.01  | [ICRA]AA- (Stable)                                | -                       | [ICRA]AA- (Stable)               | [ICRA]AA- (Stable)      |
| 2 Cash Credit           | Long-term            | 1,260.00                 | -   | [ICRA]AA- (Stable)                                | -                       | [ICRA]AA- (Stable)               | [ICRA]AA- (Stable)      |
| 3 Non-fund based limits | Short-term           | 137.00                   | -   | [ICRA]A1+   | -                       | [ICRA]A1+                        | [ICRA]A1+               |
| 4 Unallocated Limits    | Long-term/short-term | 120.30                   | -   | [ICRA]AA- (Stable)/<br>[ICRA]A1+                  | -                       | [ICRA]AA- (Stable)/<br>[ICRA]A1+ | -                       |

## 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 limits        | Very simple          |
| Long term/short-term – Unallocated Limits | 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: [Click Here](#)

**Annexure I: Instrument details**

| ISIN | Instrument Name       | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook   |
|------|-----------------------|------------------|-------------|----------|--------------------------|------------------------------|
| NA   | Term Loan-I           | FY2022           | NA          | FY2026   | 32.50                    | [ICRA]AA- (Stable)           |
| NA   | Term Loan-II          | FY2022           | NA          | FY2028   | 51.68                    | [ICRA]AA- (Stable)           |
| NA   | Term Loan-III         | FY2023           | NA          | FY2029   | 161.88                   | [ICRA]AA- (Stable)           |
| NA   | Cash Credit           | NA               | NA          | NA       | 1,260.00                 | [ICRA]AA- (Stable)           |
| NA   | Non-fund based limits | NA               | NA          | NA       | 137.00                   | [ICRA]A1+                    |
| NA   | Unallocated Limits    | NA               | NA          | NA       | 120.30                   | [ICRA]AA- (Stable)/[ICRA]A1+ |

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                               | Ownership | Consolidation Approach |
|--|-----------|------------------------|
| Indo Count Retail Ventures Private Limited | 100.00%   | Full Consolidation     |
| Indo Count Global Inc.                     | 100.00%   | Full Consolidation     |
| Indo Count UK Limited                      | 100.00%   | Full Consolidation     |
| Indo Count Global DMCC                     | 100.00%   | Full Consolidation     |

Source: ICIL's annual report

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