

September 09, 2024<sup>(Revised)</sup>

## NMK Textile Mills (India) Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term, Fund-based limits	35.0	35.0	[ICRA]A3+; reaffirmed
Long term / Short term, Fund – Based Limits	5.0	5.0	[ICRA]BBB(Stable)/ [ICRA]A3+; reaffirmed
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings factor in the extensive experience of NMK Textile Mills (India) Private Limited’s (NMK/company) promoters, having more than 20 years of expertise in the home textile segment, aiding the company to establish its position in the international and domestic markets. The ratings continue to draw comfort from NMK’s comfortable financial profile, which is marked by limited dependence on debt and moderate operating profit margins. The company’s liquidity position also remains adequate, with free cash and bank balance of ~Rs. 20 crore as on March 31, 2024, backed by limited dependence on external debt and steady profitability.

The ratings are, however, constrained by NMK’s exposure to customer concentration with a single customer (related party) contributing more than 70% to the revenues over the last four years. The company’s working capital cycle has also elongated in FY2024, marked by an increase in receivable days and high inventory holding. However, order-backed procurement and the track record of timely collection of receivables provide comfort to a certain extent. The company’s margins remain vulnerable to volatility in foreign exchange (forex) risks, as exports account for over 90% of its revenues, although the same is partly mitigated via 70% hedging of exposure through forward covers.

Besides, the operating profit margins (OPMs) are susceptible to regulatory changes in the industry, especially in export incentives (which account for 56% of NMK’s operating profits in FY2024). The ratings also consider NMK’s presence in the highly fragmented textile industry, characterised by intense competition from well-established domestic and international players in the home furnishing segment, which limits its pricing flexibility.

The Stable outlook on the long-term rating reflects ICRA’s opinion that NMK’s credit profile is expected to remain satisfactory, supported by steady demand and limited dependence on debt.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in home textiles industry** – The company’s directors, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra have more than 20 years of experience in the home textiles business and jointly manage the company’s operations. Their extensive experience has enabled NMK to establish its position in the international and domestic markets.

**Healthy financial profile aided by steady demand and stable margins** – As on March 31, 2024, NMK’s capital structure remained comfortable with a gearing of 0.2 times, supported by its improved net worth position owing to regular accretion to reserves and limited dependence on debt. This, in turn, was aided by steady revenues and profitability in FY2024. NMK’s coverage indicators remain satisfactory, with an interest coverage of 31.2 times in FY2024 and total debt against the operating profit of 0.5 times as on March 31, 2024.

**Established relationships with suppliers** – NMK procures finished fabric from reputed players such as Century Textiles and Industries Limited (Birla Century) and Mohan Spintex India Limited. While the company's supplier base is concentrated, with more than 75% of the purchase requirements met by the top five suppliers during FY2020-FY2024, these established relationships have ensured a timely supply of quality fabrics.

### Credit challenges

**Exposure to customer concentration risk** – NMK caters primarily to the mid and upper-segment customers, predominantly in the US and Canada markets. NMK has a concentrated customer base with a single customer (related party – California Design Den Inc. CDD) accounting for more than 80% of its revenues in FY2024. Thus, any slowdown in revenues or a stretch in CCD's liquidity position can adversely impact NMK's financial risk profile.

**Working capital-intensive operations** – The company's working capital intensity increased in FY2024 as reflected in the net working capital compared to the operating income of 41.9% as on March 31, 2024 against 23.0% as on March 31, 2023. The working capital intensity has increased, following the high receivable and inventory holding periods, resulting in some increase in external debt to fund the working capital requirement. That said, order-backed procurement and timely collection of receivables provide comfort to a certain extent.

**Profitability susceptible to forex fluctuations, any adverse changes in export incentives and regulatory changes** – As exports drive more than 85% of NMK's revenues, its profitability remains vulnerable to volatility in forex rates. However, NMK hedges a portion of its exposure using forward covers, mitigating the forex risk to an extent. NMK is eligible for incentives under the duty drawback scheme and the Rebate of State & Central Taxes and Levies (RoSCTL) scheme from the Government of India for its exports. The total export incentive received by NMK in FY2024 was 56% of its operating profits. Given the high share of export incentives, any adverse change in the same may affect its profit margins. The business also remains highly susceptible to regulatory norms imposed by the Indian and other Governments to check imports and exports.

**Intense competition from well-established players in the home textile segment** – NMK is a medium-sized player in the home textiles market, which is characterised by a high degree of competition from many unorganised and organised players in India, as well as overseas competitors from Bangladesh, Pakistan, and China. While unorganised players control the low-grade market, the premium segment of the home textile industry is dominated by a few organised players.

### Liquidity position: Adequate

NMK's liquidity position is adequate, supported by free cash balances of Rs. 20 crore and sufficient headroom available in the form of unutilised fund-based working capital facilities of Rs. 24 crore as on March 31, 2024. The average working capital utilisation remained modest at 20% over the 15-month period ending July 2024. The company is expected to improve gradually in the medium term. The company had negligible external debt obligations of Rs. 0.11 crore as of March 2024, which are expected to be repaid during FY2025-FY2026, while unsecured loans do not have any defined repayment schedule. The company plans to incur capital expenditure (capex) of Rs. 20 crore over the next two years for capacity expansion. Nonetheless, the liquidity position is expected to remain adequate, given the company's steady profitability and limited dependence on working capital limits.

### Rating sensitivities

**Positive factors** – ICRA could upgrade NMK's ratings, if there is a sustained significant improvement in its revenues along with diversification of its customer base.

**Negative factors** – The ratings may be downgraded if there is any sustained weakening in NMK's revenues and profits, which adversely impacts its credit profile. Any large debt-funded capex or a stretch in the working capital cycle, which adversely impacts its liquidity position would also be negative factors.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Textiles - Fabric</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of NMK Textile Mills (India) Private Limited

## About the company

NMK Textile Mills (India) Private Limited, incorporated in 2006, primarily manufactures and exports bed linen. The company is led by its directors, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra, having more than 20 years of experience in the home textiles segment and jointly manage the operations. NMK's manufacturing facility is in Bhiwandi, Maharashtra. Over the past three years, exports have contributed more than 95% to the company's total revenues. The company caters primarily to the mid and upper-segment customers, predominantly in the US and Canadian markets through CDD., as well as other retail outlets such as Hudson Bay and Co., Fred Meyer Inc., SC Global and Colony Brand, among others.

### Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	296.9	280.8	328.9
PAT	21.5	23.0	34.6
OPBDIT/OI	11.3%	11.8%	14.1%
PAT/OI	7.2%	8.2%	10.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.2	0.3
Total debt/OPBDIT (times)	0.7	0.2	0.5
Interest coverage (times)	7.8	12.9	31.2

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Current (FY2025)			Chronology of rating history for the past 3 years							
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	-	-	-	-	-	-	-	21-May-21	[ICRA]BBB-(Stable)
Export packing credit/ packing credit in rupee currency	Short term	35.00	Sep 09, 2024	[ICRA]A3+	7-Aug-23	[ICRA]A3+	18-May-22	[ICRA]A3+	21-May-21	[ICRA]A3
Post shipment loan	Long term/ Short term	5.00	Sep 09, 2024	[ICRA]BBB (Stable)/ [ICRA]A3+	7-Aug-23	[ICRA]BBB (Stable)/ [ICRA]A3+	18-May-22	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-
Foreign bills payable	Short term	-	-	-	-	-	-	-	21-May-21	[ICRA]A3
Letter of credit	Short term	-	-	-	-	-	-	-	21-May-21	[ICRA]A3

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term fund-based limits – Pre-shipment Credit	Simple
Long term/Short term, fund-based limits – Post Shipment Loan	Simple

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	EPC/PCFC	NA	NA	NA	35.00	[ICRA]A3+
NA	Posh Shipment Loan	NA	NA	NA	5.00	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

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

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

#### Corrigendum

Rationale dated September 09, 2024 has been corrected with revision as detailed below:

The applicable methodologies have been updated in the analytical approach table.

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### Branches



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