

May 21, 2021

## NMK Textile Mills (India) Private Limited: Ratings reaffirmed, and outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term fund based limit	1.00	1.00	[ICRA]BBB-; Reaffirmed Outlook revised to Stable from Positive
Short-term fund based limit	16.50	16.50	[ICRA]A3; Reaffirmed
Short-term fund based limit^	(6.00)	(6.00)	[ICRA]A3; Reaffirmed
Short-term, Non-fund based limit	9.00	9.00	[ICRA]A3; Reaffirmed
<b>Total</b>	<b>26.50</b>	<b>26.50</b>	

\*Instrument details are provided in Annexure-1

^Sub-limit of long-term fund based limit

### Rationale

The revision in outlook to Stable on the long-term rating of NMK Textile Mills (India) Private Limited (NMK) factors in the weakening of liquidity position of the company due to elongated receivables. Consequently, the working capital utilisation of the company has remained high at 87% during the 12-month period ending March 2021.

The ratings continue to favourably factor in the extensive experience of NMK's promoters in the textile industry and its healthy revenue growth due to strong demand in home textiles in the US and Canadian markets. Furthermore, the ratings draw comfort from the financial profile of the company, which is characterised by growth in profitability, resulting in improvement in capitalisation and coverage indicators.

The ratings are, however, constrained by the company's concentrated customer base and susceptibility of NMK's profit margins to fluctuations in foreign exchange rates due to its export dominated revenue profile. The profitability is also susceptible to any adverse regulatory changes or any changes in export incentives. ICRA also notes the intense competition in the home textiles segment from well-established domestic as well as international players.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in the home textile industry** - The directors of the company, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra have more than 15 years of experience in the home textiles business and together manage the operations of the company. The extensive experience of the management in this sector has enabled NMK to establish its position in the international as well as domestic markets.

**Healthy growth in revenue due to strong demand for home textiles in the US and Canadian markets**- After a healthy revenue growth of 24% in FY2019, NMK reported a 21% sales growth in FY2020 with an operating income of Rs. 162.45 crore. Further, as per the provisional financials of FY2021, the company has reported sales of Rs. 232 crore. The growth in revenues in the last two years was mainly due to strong demand for home textiles in the US and Canadian markets, which was also fueled by the expansion in e-commerce sales of its major customer, California Design Den Inc (CDD).

### **Financial profile characterised by growth in profitability, leading to improvement in capitalisation and coverage indicators–**

The operating profit margin of NMK increased to 9.81% in FY2020 from 8.01% in FY2019 owing to benefits derived from economies of scale as well as efficiency in production. The profitability is further expected to increase in FY2021 due to increase in scale of operations. The capital structure continued to remain comfortable with a gearing of 0.50 time as on March 31, 2020 (0.79 time as on March 31, 2019) due to increase in accruals. Higher profitability resulted in improved coverage indicators with an OPBDITA/Interest and Total debt/ OPBDITA of 9.13 times and 1.19 times respectively in FY2020 (over 4.66 times and 1.81 times, respectively, in FY2019).

### **Credit challenges**

**Working capital intensive nature of operations given the elongated credit extended to customers-** The working capital intensity has remained high in the last three years due to the high receivables cycle. Due to the competition faced from other international suppliers, NMK extended longer credit to its customers. The working capital intensity remained high at 24% both in FY2019 and FY2020. The high receivables continued in FY2021, especially in the second half with average monthly debtors of more than Rs. 80 crore from October 2020 to February 2021, which was due to higher sales during the holiday season in the US and Canada. Even though the debtors have reduced, it continues to remain high at Rs. 66.82 crore as on March 31, 2021 (as per provisional numbers).

**Concentrated customer base with majority of the sales coming from the top three customers-** NMK caters primarily to the mid and upper-segment customers predominantly in the US and Canadian markets through reputed retail outlets such as the Ross Stores Inc, Hudson Bay Co, Fred Meyer Inc, apart from CDD. The customer base of the company stands concentrated with top three customers contributing to more than 80% of the total revenues in the last four years. In FY2020, 71% of the sales (~67% in FY2019) was routed through CDD.

**Susceptibility of margins to fluctuations in foreign exchange rates due to export dominated revenue profile; profitability also susceptible to any adverse regulatory changes, changes in export incentives-** With exports driving majority of NMK's revenues, the profitability is vulnerable to volatility in foreign currency exchange rates. However, NMK hedges a portion of its exposure using forward covers, which mitigate the forex risk to an extent. Furthermore, NMK is currently eligible for incentives under the Duty Drawback scheme, and Remission of Duties and Taxes on Export Products (RODTEP) scheme from the Government of India for exporting its products. The total export incentives received by NMK in FY2020 was 0.81 time of its operating profits generated during the year (0.97 time in FY2019). Given the high share of export incentives, any adverse change in the export incentives may adversely 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 domestic as well as international players in the home textiles segment -** NMK is a medium sized player in the home textiles market, which is characterised by a high degree of competition from a large number of 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 ruled by a few organised players.

### **Liquidity position: Stretched**

NMK's liquidity is stretched with high receivables as on March 31, 2021. Consequently, the company has limited liquidity cushion available from undrawn fund based working capital limits as the average monthly working capital utilisation has remained at 87% during the 12-month period ending March 2021. However, the company has no long-term repayment obligations, nor any capex planned in the near future.

### **Rating sensitivities**

**Positive factors –** ICRA could upgrade NMK's ratings if there is an improvement in its liquidity position with an average working capital limit utilisation below 75% on a sustained basis, or if there is a significant revenue growth along with diversification of its customer base.

**Negative factors** – The rating may be downgraded if there is any further strain on the liquidity profile due to an increase in receivables, or if there is any change in the regulatory structure resulting in reduced rate of export incentives, impacting the profitability.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 2006, NMK Textiles (India) Private Limited manufactures and trades in bed linen. The directors of the company, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra, have more than a decade of experience in this sector and collectively manage the operations of the company. NMK's 60,000 sq. ft. manufacturing facility at Bhiwandi (Maharashtra) has a production capacity of 90,000 sheets per month. NMK's revenues are export dominated with exports contributing 90-95% to its total revenues in the past three years. The company caters primarily to the mid and upper-segment customers predominantly in the US and Canadian markets through, California Design Den Inc., and other retail outlets such as Ross Stores Inc., Hudson Bay Co., Fred Meyer Inc. etc.

NMK recorded a net profit of Rs. 14.13 crore on an operating income of Rs. 162.45 crore in FY2020.

## Key financial indicators (Audited)

NMK Standalone	FY2019	FY2020
Operating Income (Rs. crore)	134.06	162.45
PAT (Rs. crore)	5.75	14.13
OPBDITA/OI (%)	8.01%	9.81%
PAT/OI (%)	4.29%	8.70%
Total Outside Liabilities/Tangible Net Worth (times)	1.40	1.02
Total Debt/OPBDITA (times)	1.81	1.19
Interest Coverage (times)	4.66	9.13

PAT: Profit After Tax; OPBDITA: Operating Profit Before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for the past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past three years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May-21-2021	-	December-31-2019	June-29-2018
1	Export Packing Credit (EPC)/Packing Credit in Foreign Currency (PCFC)	Short-term	16.50	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
2	Foreign Bills Payable	Short-term	(6.00)	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
3	Cash Credit	Long-term	1.00	-	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Positive)	[ICRA]BBB-(Stable)
4	Letter of Credit	Short-term	9.00	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A3

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based-Pre-Shipment Credit	Simple
Short-term fund-based- Post-Shipment Credit	Simple
Long-term fund-based- Cash Credit	Simple
Short-term non-fund based- Letter of Credit	Very 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, is available on ICRA's website: [Click Here](#)

#### 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	EPC/PCFC	-	-	-	16.50	[ICRA]A3
NA	Foreign Bills Payable	-	-	-	(6.00)	[ICRA]A3
NA	Cash Credit	-	-	-	1.00	[ICRA]BBB-(Stable)
NA	Letter of credit	-	-	-	9.00	[ICRA]A3

Source: Company

#### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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