

March 31, 2022

Nandan Industries Private Limited: Ratings reaffirmed; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Term Loan	60.09	55.79	[ICRA]BBB+ (Stable); reaffirmed, outlook revised to Stable from Negative
Fund based – Cash Credit	15.00	15.00	[ICRA]BBB+ (Stable); reaffirmed, outlook revised to Stable from Negative
Non-Fund Based	5.00	6.00	[ICRA]A2; reaffirmed
Unallocated	-	3.3	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed, outlook revised to Stable from Negative
Total Bank Facilities	80.09	80.09	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings, ICRA has consolidated the financials of Nandan Industries Private Limited (NIPL) and its four associate concerns—Vishal Fabrics Limited (VFL), Dholi Spintex Private Limited (DSPL), Chiripal Textile Mills Private Limited (CTMPL) 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 mainly supply intermediate products to VFL. There are significant operational linkages and fungibility of cash flows among these companies.

The revision in the Group's rating outlook factors in the healthy improvement in the Group's turnover and profits in FY2022 and expectation of a sustained healthy performance in FY2023, following a subdued performance in FY2021 owing to the pandemic-induced economic slowdown and operational disruptions. The capacity utilisation of the Group's plants stood healthy in FY2022 owing to a surge in demand for denims/cotton fabric and yarns witnessed in the recent months. Further, a surge in realisations, in line with raw material prices, also contributed to the Group's profits during the year. While the Group's repayment obligations remain sizeable over FY2022-FY2025, which constrain its coverage metrics, sustained healthy performance is expected to keep the coverage metrics adequate. Despite increased working capital requirements due to increased scale and raw material prices, access to RBI's Guaranteed Emergency Credit Line (GECL) has supported the Group's liquidity position. Sizeable scheduled repayments and no major debt-funded capital expenditure plans over the medium term are expected to reduce the Group's debt levels gradually and improve its leverage ratios over the medium term.

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. Further, the ratings factor in its financial flexibility for being a part of the Chiripal Group. 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 with plants located in the cotton growing belt of Gujarat and the plants of its Group entities located 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 cyclicity associated with the textile sector and the vulnerability of its profitability to fluctuations in raw material prices (primarily cotton). The rating notes the pressure on its profitability because of stiff competition and the prevalent overcapacity in the denim industry.

Key rating drivers and their description

Credit strengths

Extensive experience of 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.

Healthy ramp-up in operating performance - The Group has reported a healthy improvement in performance in 9M FY2022, following a subdued performance in FY2021 owing to pandemic-led disruptions as well as muted demand trends for denim fabric. The growth in the current fiscal has been led by improvement in volumes as well as realisations. While the improvement in volumes has been led by a healthy recovery in demand for yarns as well as fabrics/ denims, increase in realisations has been driven by a corresponding increase in raw material prices, besides improvement in demand. At the consolidated level, the operating income for the Group stood at Rs. 1,127 crore on a provisional basis in 9M FY2022, compared to Rs. 884 crore in FY2021. Further, the Group's operating margins continued to be healthy at around ~19% in 9M FY2022 led by increased scale, despite a rise in raw material prices.

Manufacturing facility is 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 enables better management of its cost structure and aids 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

Average financial risk profile – With most of the Group's capex concluded in the past 2-3 fiscals, the overall debt levels remain high due to the debt-funded nature of the projects. Moreover, the Group has availed additional sanctions of ~Rs. 110 crore under various Covid relief schemes announced by the RBI in FY2021 and FY2022, to shore up its liquidity. There has been a significant increase in the group's working capital requirements during FY2022 because of the sharp increase in raw material prices as well as scale of operations. While the incremental loans have supported the Group's liquidity, these have resulted in a further increase in its repayment obligations from FY2023. Notwithstanding the improvement in the Group's scale and profits, high repayment obligations during FY2023-FY2025 are likely to keep its coverage metrics modest (with DSCR estimated at less than 1.5 times). In this context, comfort is drawn from the Group's adequate liquidity position. With no major debt raising plans incrementally and repayments scheduled to decline from FY2026, the coverage metrics are projected to improve thereafter.

High working capital intensity of operations – The Group's working capital intensity remained at an all-time high of ~70% in FY2021, mainly due to extended credit period offered to customers to push sales (debtor days increased to ~168 days in FY2021 from ~116 days in FY2020). While the Group's working capital intensity is estimated to have reverted to the pre Covid levels of ~50% in FY2022, it remains high due to the inherent nature of the business.

Demand-supply challenges in the denim industry– The denim industry has witnessed significant cyclical 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. ICRA believes that the Group’s integrated set-up would cushion the impact of adverse movement of raw materials to an extent.

Liquidity position: Adequate

The Group’s liquidity position is adequate, as reflected in an average cushion of ~Rs. 60 crore in the Group’s fund-based limits in the six-month period ended in January 2022, with limit utilisation averaging at ~75%. Despite increased working capital requirements, the Group’s liquidity has been supported by access to the Guaranteed Emergency Credit Line (GECL) loans during the current fiscal. While the Group’s repayments are sizeable at around Rs. 120 crore per annum during FY2023-FY2025, it does not have any major capex plan in the near-to-medium term. The Group’s cash flow from operations are expected to be adequate to meet the debt repayments as well as margin requirements for capital expenditure.

Rating sensitivities

Positive factors – The ratings may be upgraded if a sustained healthy improvement in scale, profitability and working capital intensity translates into a material improvement in the return and coverage metrics, and liquidity profile. Key metrics include an RoCE of above 12% and DSCR of more than 1.8 times on a sustained basis.

Negative factors – Pressure on the ratings could emerge if sustained performance pressure and/or a stretch in the working capital intensity result in weakening in 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 for Indian textiles Industry – Spinning Rating Methodology for Entities in the Textile Industry –Fabric Making Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the 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	FY2020	FY2021
Operating Income (Rs. crore)	916	884
PAT (Rs. crore)	32	32
OPBDIT/OI (%)	20%	20%
PAT/OI (%)	3%	4%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.1
Total Debt/OPBDIT (times)	4.9	5.1
Interest Coverage (times)	2.9	2.5

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

Source: VFL, CTMPL, DSPL, QEPL and NIPL, ICRA estimates

Note: Consolidated estimates are based on audited financials reported by the companies, after factoring in inter-company transactions. Consolidated financials are not audited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding *	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 31, 2022	Apr 20, 2021	Jun 15, 2020	Feb 13, 2020	-
1	Term Loans	Long-term	55.79	55.79	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-
2	Cash Credit	Long-term	15.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-
3	Bank Guarantee	Short-term	6.00	-	[ICRA]A2	[ICRA]A2	-	-	-
4	Unallocated	Long/Short-term	3.3	-	[ICRA]BBB+ (Stable)/[ICRA] A2	-	-	-	-

* Amount outstanding as on February 28, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based – Term Loan	Simple
Fund based – Cash Credit	Simple
Non-fund Based - Letter of Credit/Bank Guarantee	Very Simple
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, is available on ICRA's website: www.icra.in

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	Term Loan	FY2018	-	FY2028	55.79	[ICRA]BBB+ (Stable)
NA	Cash Credit	-	-	-	15.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	6.00	[ICRA]A2
NA	Unallocated	-	-	-	3.3	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: VFL, CTMPL, DSPL, QEPL and NIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	NIPL Ownership	Consolidation Approach
Chirpal 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

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About ICRA Limited:

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