

August 07, 2023

## 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 more than 20 years of NMK Textile Mills (India) Private Limited's (NMK/company) promoters 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, marked by limited dependence on debt and moderate operating profit margins. The company's liquidity position also remains adequate, with free cash and back balance of Rs. 41 crore as on March 31, 2023, backed by steady profitability and moderation in net working capital cycle, driven by timely collection of receivables.

The ratings are, however, constrained by NMK's exposure to customer concentration with a single customer (related party) contributing more than 70-80% to the revenues over the last four years. The company's margins remain vulnerable to volatility in foreign exchange (forex) risks, as exports account for over 90% of its revenues, though the same is partly mitigated via hedging of 70% of exposure through forward covers. Besides, the operating profit margins are susceptible to any regulatory changes in the industry and in export incentives (which account for 66% of NMK's operating profits at present). 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. ICRA notes the demand headwinds being faced by the home furnishing industry in the US and Canada, which led to YoY moderation in NMK's revenues in FY2023 and is likely to continue in FY2024. NMK is, however, undertaking some cost-optimisation measures, which, coupled with its largely order-backed procurement, will help sustain its OPMs at current levels.

The Stable outlook on the long-term rating reflects ICRA's opinion that NMK's credit profile is expected to remain satisfactory, supported by its controlled working capital cycle and expected steady OPMs.

### Key rating drivers and their description

#### Credit strengths

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

**Healthy financial profile aided by stable margins and improvement in working capital cycle** – The capital structure of NMK remained comfortable with a gearing of 0.1 times as on March 31, 2023, supported by improved net worth position on account of high accretion to reserves and limited dependence on debt. This, in turn was aided by steady profitability and a controlled working capital cycle. NMKs coverage indicators remain satisfactory with an interest coverage of 12.9 times in FY2023 and total debt against the operating profit of 0.2 times as on March 31, 2023. Besides, the company's net working capital intensity

improved to 23.1% during FY2023 against 27.9% during FY2022 led by timely receivables collection, further leading to improved liquidity management. ICRA notes the demand headwinds in the US home furnishing industry, which are likely to lead to moderation in revenues in FY2024. NMK is, however, undertaking some cost-optimisation measures, which, coupled with its largely order-backed procurement, will help sustain its OPMs at current levels.

**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 suppliers are concentrated with more than 80% of the purchase requirements met by the top-five suppliers during FY2020-FY2023, established relationships with the suppliers have ensured 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 75% of its revenues in FY2023. Thus, any slowdown in revenues or a stretch in the liquidity position of CDD can adversely impact the financial risk profile of NMK.

**Profitability susceptible to forex fluctuations, any adverse changes in export incentives and regulatory changes** – As exports drive more than 95% of NMK's revenues, its profitability remains 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. 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 exporting its products. The total export incentive received by NMK in FY2023 was 66% of its operating profits. Given the high share of export incentives, any adverse change in the same may adversely impact 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 ruled by a few organised players.

### Liquidity position: Adequate

NMK's liquidity position is adequate, supported by free cash balances of Rs. 41 crore, and fully unutilised fund-based working capital facilities of Rs. 40 crore as on March 31, 2023. The average working capital utilisation remained moderate at 28% during the 12-month period ending June 2023. The company is expected to generate retained cash flows of Rs. 20-22 crore during FY2024. Against this, the company had negligible external debt obligations of Rs. 0.16 crore as of March 2023, which are expected to be repaid during FY2024, while unsecured loans do not have any defined repayment schedule. Additionally, the company has not envisaged any debt-funded capital expenditure (capex) plans over the near-to-medium term.

### Rating sensitivities

**Positive factors** – ICRA could upgrade NMK's ratings, if there is a sustained significant improvement in its revenues and profitability levels, 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 Directors of the company, Mr. Rohit Mehrotra and Mr. Bharat Mehrotra have more 20 years of experience in the home textiles segment and collectively manage the operations of the company. NMK's manufacturing facility is in Bhiwandi, Maharashtra. Exports contributed more than 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 CDD., and other retail outlets such as Hudson Bay Co., Fred Meyer Inc., SC Global, Colony Brand among others.

### Key financial indicators (audited)

NMK Standalone	FY2021	FY2022	FY2023*
Operating income	247.2	296.9	280.8
PAT	23.2	21.5	23.1
OPBDIT/OI	13.5%	11.3%	11.8%
PAT/OI	9.4%	7.2%	8.2%
Total outside liabilities/Tangible net worth (times)	1.0	0.5	0.2
Total debt/OPBDIT (times)	0.9	0.7	0.2
Interest coverage (times)	12.1	7.8	12.9

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

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

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 7, 2023	May 18, 2022	May 21, 2021	-
1 Cash Credit	Long term	-	-	-	-	[ICRA] BBB- (Stable)	-
2 Export packing credit/ packing credit in rupee currency	Short term	35.0	-	[ICRA] A3+	[ICRA] A3+	[ICRA] A3	-
3 Post shipment loan	Long term/	5.0	-	[ICRA] BBB (Stable)/[ICRA] A3+	[ICRA] BBB (Stable)/[ICRA] A3+	-	-

		Short term							
4	Foreign bills payable	Short term	-	-	-	-	[ICRA] A3	-	
5	Letter of credit	Short term	-	-	-	-	[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

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Priyesh Ruparelia**

+91 022 6169 3328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

**Sakshi Suneja**

+91 022 6114 340

[sakshi.suneja@icraindia.com](mailto:sakshi.suneja@icraindia.com)

**Brinda Goradia**

+91 22 6169 3327

[brinda.goradia@icraindia.com](mailto:brinda.goradia@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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