March 11, 2021

Indo Count Industries Limited: Long-term rating reaffirmed; short-term rating upgraded to [ICRA]A1+; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/Cash Credit	525.00	525.00	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Long Term - Fund Based/Term Loan	50.02	50.02	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Short-term Non-fund Based	230.00	230.00	[ICRA]A1+; upgraded from [ICRA]A1
Total	**805.02**	**805.02**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in short-term rating and revision in long-term outlook factor in Indo Count Industries Limited's (ICIL) strong liquidity position on the back of a healthy operating performance in the current year and ICRA's expectations that ICIL's credit profile would continue to improve in the near term on the back of favourable demand conditions in its key export market, the US. While ICIL's performance remained subdued in Q1 FY2021 due to the pandemic-induced demand slowdown across the globe, ICIL demonstrated a better-than-expected improvement in revenues and margins, driven by supportive demand from the US market. The company reported an operating income of Rs. 1,852.3 crore and an operating margin of 16.7% in 9M FY2021. The improvement in operating performance also led to an improvement in the company's liquidity profile, with unencumbered cash and liquid investments of Rs. 225 crore as on December 31, 2020 against Rs. 139.4 crore as on March 31, 2020. The ratings also consider the comfortable capitalisation and coverage metrics, as depicted by a low gearing of 0.3 times, as on September 30, 2020, and a healthy interest coverage ratio of 18.0 times in 9M FY2021. While the capital structure and coverage indicators remain comfortable at present, ICRA notes that any major capex in the future, funded largely by debt, could strain the capital structure and hence, would remain a key credit monitorable. The ratings also derive comfort from the long track record of the promoters in the textile industry and the company's healthy market position in the home textile segment in several countries including the US. ICIL is one of the largest exporters of cotton bed linen from India and is also among the largest suppliers of cotton bed linen in the US market. The ratings also factor in ICIL's established relationship with reputed customers and the superior quality of products handled.

The ratings are, however, constrained by the company's exposure to sales concentration risks, given that the top-3 customers accounted for 54% of its total sales in 9M FY2021 (51% in FY2020). While the risk is mitigated to some extent given the established and long-standing relationships with these customers, any major customer loss in the future could impact the company's revenue growth prospects. Besides, the company derives about three-fourth of its revenues from the US market, which exposes it to geographical concentration risks. ICRA also notes that despite a formal hedging policy to cover 60-65% of its foreign currency exposure, currency volatility and dependence on exports (to the tune of more than 95% of sales) increase ICIL's exposure to forex risks. The company's profitability also remains sensitive to volatility in the prices of its key raw materials, viz. cotton and cotton yarn. The ratings are also constrained by the working capital intensive nature of operations due to high inventory holding requirements. ICRA notes that while the receivables have increased to 58 days as on September 30, 2020 from 46 days as on March 31, 2020, the counterparty credit risk is mitigated to a large extent by the receivable factoring and Export Credit Guarantee Corporation (ECGC) cover for export receivables, and credit insurance policy for domestic receivables.

Key rating drivers and their description

Credit strengths

Improving operating performance – ICIL reported healthy revenues and profitability in 9M FY2021, supported by improved export demand. Despite a washout in April 2020 due to the nationwide lockdown to curb the Covid-19 pandemic, the company reported revenues of Rs. 1,852.3 crore and an operating margin of 16.7% in 9M FY2021, supported by demand recovery in the US. In Q3 FY2021, the company reported sales volumes of 23.9 million metres, its highest ever quarterly sales since inception. Going forward, the company's presence in health and hygiene-based bed linen products would drive the revenue growth, given the increased awareness due to the pandemic.

Improvement in liquidity profile – Healthy profitability in Q2 FY2021 and Q3 FY2021 led to an improvement in ICIL's liquidity profile. The company's unencumbered cash and liquid investments rose to Rs. 225.0 crore as on December 31, 2020 from Rs. 139.4 crore as on March 31, 2020. Unutilised fund-based limits of Rs. 235 crore (with a commensurate drawing power) provide additional comfort to ICIL's overall liquidity position.

Comfortable capitalisation and coverage metrics – ICIL's total debt, as on September 30, 2020, comprised term loans of Rs. 43.7 crore and working capital borrowings of Rs. 260.6 crore. Its capitalisation and debt protection metrics remained comfortable, with a gearing of 0.3 times as on September 30, 2020 and an interest coverage ratio of 16.4 times in H1 FY2021. While the capital structure and coverage indicators remain comfortable at present, ICRA notes that any major debt-funded capex in the future could strain the capital structure and hence, would remain a key credit monitorable.

Reputed clientele and superior product quality – ICIL is one of the largest cotton bed linen exporters from India and has a healthy market position in the home textile segment in the US. Its clientele includes reputed global retailers in the US and Europe. The company derives strength from its superior product quality, product innovation and timeliness of contract execution.

Extensive experience of promoters – ICIL was incorporated in 1988 and manufactures home textile products. The promoters have experience of over three decades in the textile business.

Credit challenges

Exposure to sales concentration risks – The company is exposed to sales concentration risks, given that the top-3 customers accounted for more than 54% of its total sales in 9M FY2021 (51% in FY2020). While the established and long relationships with these customers provide comfort, ICRA believes that any major customer loss in the future could impact the company's business risk profile and would hence remain a key monitorable. ICIL is also exposed to geographical concentration risk as the US market accounted for two-third of its total revenues. Going forward, the company's ability to broad-base its revenue stream from the non-US markets would remain a key rating sensitivity.

Exposure to price and forex risks – The key raw materials of the company are cotton and cotton yarn, the prices of which have remained volatile in the past. High inventory holding requirements for the home textile division, in view of the high proportion of replenishment contracts, expose the company's operations to fluctuations in raw material prices. Exports account for more than 95% of ICIL's total sales while the raw materials are procured from domestic suppliers, which expose the company to forex risks. While the company currently hedges 60-65% of its exposure on a rolling 12-month basis, the company's operations remain exposed to forex risks on the unhedged portion.

High working capital intensity – ICIL's operations are characterised by high working capital intensity due to a high inventory holding period. In the current fiscal, the company's receivables increased to 58 days as on September 30, 2020 against 46 days as on March 31, 2020, resulting in an increase in the working capital intensity (net working capital-to-operating income) to 34.4% as on September 30, 2020 from 30.4% as on March 31, 2020. Notwithstanding the increased receivables, the counterparty credit risk is mitigated to a large extent by the receivable factoring and ECGC cover for export receivables, and credit insurance policy for domestic receivables.

Liquidity position: Strong

ICIL's liquidity position is strong given the large unencumbered cash and liquid investments of Rs. 225 crore as on December 31, 2020, healthy cash generation from business expected in FY2021 and access to unutilised working capital limits of Rs. 235 crore as on December 31, 2020 (with a commensurate drawing power). Against this, the company has debt repayments of Rs. 19.9 crore scheduled in FY2021 and the routine capex spend is likely to be Rs. 10-15 crore during the year.

Rating sensitivities

Positive factors – ICRA could upgrade ICIL's rating if the company is able to further increase its sales and profitability by increasing its presence in the non-US markets and/or if the return on capital employed remains above 25% on a sustained basis.

Negative factors – Pressure on ICIL's ratings could arise in case of any large unanticipated debt-funded capex and/or any major revision in the export incentive structure, leading to a moderation in profitability and/or customer loss in the US, leading to a major drop in revenues. The return on capital employed remaining below 15% on a sustained basis could also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Spinning Indian Textiles Industry – Fabric
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial risk profile of ICIL. As on March 31, 2020, ICIL had six subsidiaries, enlisted in Annexure-2.

About the company

Indo Count Industries Limited (ICIL) was originally incorporated as M/s. Vishnu Aluminium Limited on November 7, 1988 with a view to set up a 100% export-oriented combed cotton yarn spinning unit. The company's name was changed to Indo Count Industries Limited in April 1990 and it then went public. In 1991, it commenced its spinning operations with ~30,000 spindles and gradually scaled up to ~60,000 spindles.

As a part of its forward integration strategy, ICIL started the home textile division in 2007, encouraged by the untapped export market, particularly the US. Operations in this division began with an installed capacity of 360 lakh metres per annum, which was subsequently scaled up to 900 lakh metres per annum in FY2017. ICIL's manufacturing facility in Kolhapur, Maharashtra is equipped with ~60,000 spindles in the spinning division, and a bed linen manufacturing capacity of 900 lakh metres per annum. The home textile division is the mainstay of the company's revenues and its products are predominantly exported to customers based in the US and the UK.

In FY2020, on a consolidated level, ICIL reported a profit after tax (PAT) of Rs. 73.1 crore on an operating income (OI) of Rs. 2,129.6 crore compared to a PAT of Rs. 59.8 crore on an OI of Rs. 1,944.7 crore in FY2019.

Key financial indicators

Consolidated financials	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	1944.7	2129.6	1852.3
PAT (Rs. crore)	59.8	73.1	191.4
OPBDIT/OI (%)	8.5%	10.9%	16.7%
PAT/OI (%)	3.1%	3.4%	10.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7	-
Total Debt/OPBDIT (times)	2.0	1.5	-
Interest Coverage (times)	4.7	5.9	18.0

*Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional; Source: ICIL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	
					Mar 11, 2021	Dec 11, 2020	Jul 19, 2019	Feb 20, 2019	Sep 7, 2018	Aug 10, 2017	Apr 10, 2017
1	Cash credit	Long Term	525.00	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
2	Term Loan	Long Term	50.02	43.70*	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
3	Non-fund based limits	Short Term	230.00	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore; *As on September 30, 2020*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Cash credit	-	-	-	525.00	[ICRA]A+(Positive)
NA	Term loan	FY2017	-	FY2025	50.02	[ICRA]A+ (Positive)
NA	Non-fund based limits	-	-	-	230.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Pranavaditya Spinning Mills Limited	74.53%	Full consolidation
Indo Count Retail Ventures Private Limited	100%	Full consolidation
Indo Count Global Inc., USA	100%	Full consolidation
Indo Count UK Limited	100%	Full consolidation
Indo Count Australia Pty Limited	100%	Full consolidation
Indo Count Global DMCC	100%	Full consolidation

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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