January 10, 2022

Indo Count Industries Limited: Long-term rating upgraded to [ICRA]AA- (Stable); Short-term rating reaffirmed; outlook revised to Stable from Positive

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Indo Count Industries Limited (ICIL), which includes its subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages among them.

The rating upgrade considers the better than expected improvement in the operating performance of ICIL in FY2021 and H1 FY2022 on the back of improved capacity utilisation and an increase in unit realisations, supported by favourable demand conditions in its key export market, the US, and a change in sales mix towards value-added products. The ratings continue to favourably factor in the comfortable capital structure, characterised by a gearing of 0.5 times as on September 30, 2021 and healthy debt coverage indicators including an interest cover of 10.2 times in H1 FY2022. The company is expected to benefit from stability in export incentive policy of the Government of India with the extension of rebate of state and central taxes and levies (RoSCTL) till March 2024. The ratings further derive comfort from the extensive experience of ICIL's promoters in the textile industry, the company's healthy market position in the home textile segment in several countries including the US and its established relationship with reputed customers.

While revising the ratings, ICRA has taken note of the company's plans to acquire the home textile business of GHCL Limited[1] along with specific assets of Grace Home Fashion LLC (the US subsidiary of GHCL) on a slump sale basis for a consideration of Rs. 576 crore. The acquisition, which will augment ICIL's processing capacity by ~50% to 153 million metres per annum, is expected to be funded largely through internal cash accruals and liquidity on the books of the company with minimum reliance on external debt which will help the company to continue to maintain a comfortable capital structure and healthy debt-protection metrics. While the integration and ramp-up of production from the acquired facilities may take some time, leading to slight moderation in margins in the short term, ICRA expects the company to benefit from the increased scale and diversification of customers, geographies and products in the long run.

The ratings are, however, constrained by ICIL's exposure to customer concentration risk as the top three customers accounted for 58% of its revenues in H1 FY2022 (52% in FY2021). While the risk is partly mitigated by the established long-term relationships with prominent customers, any major customer loss could significantly impact ICIL's growth prospects. Further, the company derives about 3/4th of its revenue from the US market, which exposes the company to geographical concentration risk. ICRA, however, notes the company's efforts to diversify its revenues through entering new geographies and inorganic

[1]Subject to approval from shareholders of both companies and statutory and regulatory clearances

growth. The ratings also factor in the working capital intensive nature of operations due to high inventory holding requirements, which has been further elongated due to the ongoing global supply chain bottlenecks and container shortages. The company's profitability also remains sensitive to volatility in the prices of its key raw materials viz. cotton and cotton yarn.

The stable outlook on the long-term ratings reflects ICRA's opinion that the company will continue to maintain a comfortable capital structure and healthy debt coverage indicators while benefitting from the increased scale of operations supported by export demand tailwinds.

Key rating drivers and their description

Credit strengths

Improvement in operating performance on the back of healthy capacity utilisation and increase in unit realisations – ICIL reported healthy revenues and profitability in FY2021 and H1 FY2022 supported by robust export demand for its products. The operating revenues grew by 18% YoY to Rs. 2,519.2 crore and the operating margins rose 410 bps YoY to 15.0% in FY2021. In H1 FY2022, the revenues stood at Rs. 1,452.7 crore with an operating margin of 16.8%. The improvement in operating performance was driven by healthy capacity utilisation levels, which increased to ~91% in FY2021 (~66% in FY2020) and ~86% (annualised) in H1 FY2022. The company recorded healthy quarterly sales volumes of 20+ million metres in the last three quarters of FY2021 and 18+ million metres in the first two quarters of FY2022. The average realisations for ICIL have also improved 7% YoY in FY2021 and 22% in H1 FY2022 on the back of favourable product mix towards value-added products and commodity price inflation. ICRA expects the company to sustain the improvement in operating performance owing to the stable export incentive policy of the Government and robust export demand from developed economies.

Comfortable capital structure and healthy debt-protection metrics – ICIL continues to maintain a comfortable capital structure with net gearing of 0.2 times and 0.3 times on March 31, 2021 and September 30, 2021, respectively. The company's gross debt stood at Rs. 738.0 crore at the end of H1 FY2022 comprising Rs. 73.5 crore of term debt and Rs. 672.6 crore of working capital borrowing. The working capital borrowing rose mainly due to higher inventory holding by the company on the back of increased transit time driven by logistical challenges and higher stocking of raw materials and finished goods to prevent supply chain disruption amid the evolving Covid-19 scenario. The interest cover stood at 10.2 times and DSCR stood at 7.2 times as on September 30, 2021. ICRA expects ICIL to continue to maintain a comfortable capital structure and healthy debt service indicators in the medium term, despite the sizeable capital expenditure and proposed acquisition, due to these being funded largely through internal accruals with low reliance on external debt.

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 big-box retailers in the US and Europe. The company continues to enjoy strong relationships with its large clients which leads to high repeat orders. The company differentiates itself through superior product quality, product innovation and timeliness of contract execution.

Extensive experience of promoters – ICIL was incorporated in 1988 as an export-oriented spinning unit. The company forward integrated its operations by setting up the home textile processing unit and has scaled its capacities over the years to become one of the largest home textile exporters from India. The company continues to benefit from over three decades of experience of the promoters in the textile business.

Credit challenges

High concentration of sales – ICIL's sales have a high degree of customer concentration risk with the company's top three customers accounting for 52% of its revenues in FY2021 (51% in FY2020) and 58% in H1 FY2022. Moreover, ICIL is exposed to geographical concentration risk as the US accounts for two-thirds of its total revenues. While the long and established relationships with major customers provides some comfort, ICRA believes that any major customer loss could impact the company's growth prospects and would remain a key monitorable. While ICRA recognises the company's efforts to improve diversification of sales through exploration of new geographies, product diversification and acquisitions, the company's ability to broad-base its revenues with focus on the non-US markets would remain a key rating sensitivity.

High working capital intensity of business due to high inventory holding – ICIL's operations are characterised by high working capital intensity due to a high inventory holding period. The company's working capital intensity, as measured by NWC/OI (net-working capital to operating income) increased to 42.7% in FY2021 from 31.7% in FY2020 due to an increase in inventory to 131 days and receivables to 80 days from 109 days and 46 days respectively. This was primarily driven by the onset of global logistical challenges in Q4 FY2021 leading to higher transit times. The NWC/OI further increased to 47.2% in H1 FY2022 due to an increase in inventory to 141 days while the receivables have normalised to 55 days. ICRA expects the company's inventory levels to remain inflated in the near term due to continuing logistical issues, uncertainty around Covid-19 and the proposed acquisition of GHCL's home textile business.

Vulnerability of margins to fluctuation in raw material prices and foreign exchange rates – The key raw materials for the company are cotton, cotton yarn and cotton fabric, the prices of which have exhibited high volatility. With high inventory holding requirements due to an asset-light model, the company's profitability is exposed to fluctuations in raw material prices. However, ICIL's strong bargaining power due to healthy liquidity and high visibility of its order book provide some comfort. While exports account for ~95% of ICIL's revenues, the major portion of its raw materials is sourced from domestic markets. This robs the company of any considerable natural hedge and exposes its margins to forex risk. Although the company currently hedges 60-65% of its exposure on a rolling 12-month basis, the company's operations remain exposed to forex risk on the unhedged portion.

Liquidity position: Adequate

ICIL's liquidity is **Adequate**, with a sizeable cash and liquid investments portfolio of ~Rs. 296 crore and Government receivables of ~Rs. 150 crore against gross debt of ~Rs. 738 crore as on September 30, 2021. Its liquidity is further supported by access to unutilised working capital limits of ~Rs. 250 crore (with commensurate drawing power) and expectation of healthy accruals of ~Rs. 370 crore in FY2022. ICIL has repayment obligations of ~Rs. 20 crore and expansion capital expenditure plans of Rs. 200 crore in FY2022 (partly funded through term debt of Rs. 120 crore), of which the company has incurred ~Rs. 85 crore in H1 FY2022, apart from the regular capex of Rs. 25-30 crore per annum. The proposed acquisition of GHCL's home textile business[1] is expected to be funded largely through internal accruals. The company is expected to have a repayment obligation of ~Rs. 40 crore and ~Rs. 47 crore in FY2023 and FY2024 against expected cash accruals of ~Rs. 550 crore per annum.

Rating sensitivities

Positive factors – ICRA could upgrade ICIL's ratings in case of successful integration and profitable and timely ramp-up in production from the facilities proposed to be acquired from GHCL Limited resulting in sustainable diversification in ICIL's revenues. Specific credit metrics which could result in an upgrade include return on capital employed (RoCE) above 25% on a sustained basis.

Negative factors – Pressure on ICIL's ratings could arise in case of slower than expected ramp-up in the utilisation of the facilities proposed to be acquired from GHCL Limited and/or any large unanticipated debt-funded capital expenditure leading to a moderation in liquidity and/or profitability on a sustained basis. The ratings could also be downgraded in the event of a customer loss in the US leading to a major drop in revenues. Specific credit metrics which could result in a downgrade include total debt/OPBDITA[2] of more than 1.5 times on a sustained basis.

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[2]OPBDITA = Operating Profits before Depreciation, Interest, Taxes and Amortisation

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry – Fabric Making Rating Methodology for Entities in the Textile Industry - Spinning
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ICIL. As on March 31, 2021, the company had 5 subsidiaries which are all enlisted in Annexure-2.

About the company

Indo Count Industries Limited (ICIL) was incorporated as a yarn manufacturer in 1988. The company commenced production at its export-oriented spinning unit in 1991 with an installed capacity of ~30,000 spindles. It went public and got listed on NSE and BSE in the same year. In 2006, ICIL commenced forward integration of its operations by setting up a state-of-the-art home textiles manufacturing facility in Kolhapur, Maharashtra with an installed capacity of 36 million metres of bed linen. It also acquired Pranavaditya Spinning Mills Limited in 2007 to augment its spinning capacity to ~80,000 spindles. Over the years, the company has transformed into a complete home textile solutions provider and established itself as a major supplier of home textiles globally, exporting to 50 countries across the world.

At present, ICIL has an installed capacity of ~80,000 spindles in the spinning unit and 90 million metres in the textile processing unit with an ongoing capital expenditure to increase the capacity to 108 million metres per annum by end-FY2022. The company's product offering comprises premium value-added products including bed sheets, fashion bedding, utility bedding and institutional bedding. It is the largest manufacturer and exporter of bed sheets, bed linen and quilts from India and is among the top three global bed sheet suppliers to the US.

Key financial indicators (audited)

ICIL Consolidated	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	2,129.6	2,519.2	1,452.7
PAT (Rs. crore)	73.1	249.1	202.1
OPBDITA/OI (%)	10.9%	15.0%	16.8%
PAT/OI (%)	3.4%	9.9%	13.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8	0.8
Total Debt/OPBDIT (times)	1.5	1.5	1.5
Interest Coverage (times)	5.9	13.4	10.2

*PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

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 as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Jan 10, 2022	Mar 11, 2021	Dec 11, 2020	Jul 19, 2019	Feb 20, 2019	Sep 07, 2018
1	Term Loans	Long-term	50.02	73.5	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**
2	Cash Credit	Long-term	525.00	NA	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**
3	Non-fund based limits	Long-term and short term	230.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based – Cash Credit	Simple
Short-term Non-fund based limits	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 analyzing 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/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loan	FY2017	-	FY2025	50.02	[ICRA]AA- (Stable)
-	Cash Credit	-	-	-	525.00	[ICRA]AA- (Stable)
-	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 Global DMCC	100%	Full Consolidation
Indo Count Australia Pty Limited (voluntarily deregistered on October 07, 2020)	-	-

Source: *ICIL annual report FY2021*

Note: *ICRA has taken a consolidated view of the parent (ICIL) and its subsidiaries while assigning the ratings.*

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