

June 14, 2023

## Nandan Denim Limited: Ratings downgraded to [ICRA]BBB- (Negative)/[ICRA]A3

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Cash Credit	240.00	240.00	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Negative)
Fund -based- Term Loan	251.56	251.56	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Negative)
Non-fund-based facilities- Letter of Credit/Bank Guarantee	60.00	60.00	[ICRA]A3; downgraded from [ICRA]A3+
<b>Total</b>	<b>551.56</b>	<b>551.56</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings downgrade factors in the significant reduction in profitability, coverage metrics and liquidity indicators of Nandan Denim Ltd. (NDL) in FY2023. The operating income declined by 7.4% to Rs. 2,026 crore in FY2023 on a YoY basis. The net margins have also declined to 0.04% in FY2023 from 3.1% in FY2022. The profitability is expected to remain low in the near-to-medium term owing to weak demand in the industry and reduction in various government incentives received related to capex incurred in the past. ICRA notes that the profit reported for FY2023 includes Rs.1.7 crore gains accounted for insurance claims. ICRA also notes the partial receipt of insurance claim worth ~ Rs. 10 crore in April 2023. The company expects further insurance claim inflows of ~Rs. 40 crore in H1 FY2024, utilisation of which would be a key monitorable. ICRA expects NDL's operating liquidity to remain stretched in the near-to-medium term due to higher term debt obligations against a weak demand environment. The ratings also remain constrained by the inherent cyclicity associated with the denim sector and the working capital intensive nature of the company's operations. ICRA notes that despite lower net cash accruals, the entity had prepaid term debt obligation in FY2023 through better collection of receivables and utilisation of buffer available in short-term borrowings.

The ratings continue to draw strength from NDL's strong market position as one of the leading denim capacities in the domestic market, its diversified product profile, and the extensive industry experience of its promoters. The ratings also take comfort from the company's proximity to the cotton-growing belt and its backward integrated operations, which support its cost structure.

The outlook on the long-term rating continues to be Negative owing to a weak operating environment and a stretch in the liquidity profile.

### Key rating drivers and their description

#### Credit strengths

**Established market position as one of the country's leading denim manufacturers** – NDL is a part of the Ahmedabad-based Chiripal Group, which has been in the textile business since 1972 and enjoys diversified operations in the textile value chain with manufacturing partially-oriented yarn (POY), fully drawn yarn (FDY) and draw texturised yarn (DTY), along with fabric processing. NDL has an integrated manufacturing unit, comprising production facilities from spinning to fabric finishing. The company has an established market position and is one of the largest denim manufacturers in India, with a capacity of 110 million metres per annum (MMPA). NDL primarily caters to the low-medium quality denim segment, which has a larger market

size than the premium denim segment. NDL has a well-established network of distributors in the domestic market and enjoys strong relationship with its clients, which can be attributed to the Chiripal Group's long presence in the textile business.

**Proximity to cotton-growing belt and backward-integrated operations support operational risk profile** – NDL's manufacturing facilities at Sejpur-Gopalpur in Ahmedabad are in proximity to the cotton-growing belt in Gujarat. Further, the backward-integrated operations enable the company to meet a significant share of its yarn requirement from the in-house capacities. While its presence in the spinning segment exposes the company's profitability to volatility in cotton prices, it facilitates cost savings on transportation.

### Credit challenges

**Sharp dip in performance amid increased raw material prices and reduction in subsidies** – The profit margins of the company are mainly affected by the raw material price fluctuations as the ability to fully pass on the cost price increase gets constrained due to cyclical demand conditions and intense competition in the sector. The operating margins of NDL had declined to 4.2% in FY2023 from 7.9% in FY2022. Cotton raw material stocks accumulated in Q2 FY2023 at lifetime high prices were used in Q3 FY2023, post a decline in cotton prices. This coupled with lower price realisations on yarn impacted profits in FY2023. In Q3 FY2023, the entity incurred a net loss of 5.1%. The same improved to a breakeven in Q4 FY2023. Also, various sections of capex undertaken by NDL were eligible for incentives under different central and state government schemes. The entity has ceased to receive interest subsidy from FY2023, leading to an increase in the borrowing cost. Going forward, other subsidies received will also reduce due to the completion of the subsidy receipt period. A decline in profitability in FY2023 also impacted the coverage indicators. The interest coverage ratio fell to 1.6x in FY2023 from 4.1x in FY2022. ICRA expects the coverage indicators to remain stretched in the near-to-medium term with reduction in subsidy received and expected muted growth in profitability in FY2024 on the back of a weak operating environment.

**High working capital intensity** – Though the working capital intensity eased to 23.4% in FY2023 from 24.4% in FY2022, the working capital intensity for NDL has remained high mainly because of elongated receivables and high inventory holding. The inventory remains high as the company stocks cotton during year-end with expectations of price increase during the lean season. Thus, on one hand, the company's profitability remains susceptible to unforeseen corrections in cotton prices, which can lead to inventory losses, on the other hand, a stable price may lead to higher carrying costs without any foreseen benefits.

**Cyclical in the denim industry** – The denim industry has inherent cyclical with periods of excess market capacity and tight demand-supply situations. An oversupply situation exerts pressure on the company's profitability, by affecting the volumes and pricing power, in line with the industry trends.

### Liquidity position: Stretched

NDL's liquidity profile is stretched due to lower profitability in FY2023. NDL had free cash and cash equivalents of ~Rs.3.2 crore as on March 31, 2023, and a cushion of ~Rs.3 crore (equivalent to ~1.25% of the sanctioned limits) in the company's fund-based working capital limits as of end March 2023. The company has ~Rs.63-crore debt repayment obligations in FY2024 against a projected NCA of Rs. 58.8 crore in FY2024. In addition, the management has indicated that the insurance claim of ~Rs. 40 crore, likely to be received in H1 FY2024, would also be utilised to prepay the term debt obligations. Overall, ICRA expects NDL to be able to meet its near-term commitments through internal as well as external sources.

### Rating sensitivities

**Positive factors** – Any near-term upgrade in ratings is unlikely. The outlook can be revised to Stable if there is a marked increase in NDL's revenues and profitability, and improvement in its coverage metrics. Strengthening of the liquidity profile while building up capital buffers would be crucial for a revision in the outlook.

**Negative factors** – ICRA could downgrade the ratings if there is pressure on the operating profitability, or any stretch in the working capital cycle or any sizeable debt-funded capex, which adversely impacts the credit metrics and the company’s liquidity position. A specific trigger for ratings downgrade includes an interest cover of less than 2.8 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Textiles Industry (Spinning)</a> <a href="#">Rating Methodology - Textiles Industry (Fabric Making)</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of NDL

### About the company

Incorporated in August 1994 as a private limited company by Mr. Vedprakash Chiripal and Mr. Brijmohan Chiripal, Nandan Denim Limited (NDL, earlier known as Nandan Exim Limited) started with trading and exports of textile products and was converted into a public limited company in January 2004. In FY2004, the company forayed into manufacturing operations with weaving of denim fabric with a capacity of 20 million meters per annum (MMPA) and increased the capacity to 110 MMPA over the years. In order to backward integrate, NDL installed a cotton spinning unit having a capacity of 40 TPD in FY2011 and increased the capacity to 142 TPD over the years (reduced to 104 TPD due to a fire incident in August 2020). Further, to mitigate the product concentration risk, NDL installed a 10-MMPA shirting capacity in FY2014. The company has two manufacturing facilities located at Sejpur-Gopalpur in Ahmedabad (Gujarat). The company also operates a 15-MW solar power plant within its premises, which meets its entire power requirements.

### Key financial indicators

	FY2022	FY2023
Operating Income (Rs. crore)	2,188.4	2,026.8
PAT (Rs. crore)	67.8	0.8
OPBDIT/OI (%)	7.9%	4.2%
PAT/OI (%)	3.1%	0.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.3
Total Debt/OPBDIT (times)	3.2	5.5
Interest Coverage (times)	4.1	1.6

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

Source: NDL

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

**Any other information: Not applicable**

## 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 of March 31, 2023 (Rs. crore)	Date & Rating on	FY2023					Date & Rating in FY2022		Date & Rating in FY2021	
					Jun 14, 2023	Mar 6, 2023	Nov 23, 2022	Oct 10, 2022	Aug 3, 2022	Jan 24, 2022	Mar 22, 2021	Dec 04, 2020 Aug 17, 2020	
1 Term Loan	Long-term	251.56	209.00	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)		
2 Cash Credit	Long-term	240.0	--	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)		
3 EPC/FBD	Short term	--	--	--	--	--	--	--	--	--	[ICRA]A3		
4 Letter of Credit / Bank Guarantee	Short term	60.0	--	[ICRA] A3	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA]A3	[ICRA]A3		
5 Unallocated Limits	Long-term/ Short term	--	--	--	--	--	[ICRA]BBB (Stable)/ A3+	[ICRA]BBB (Positive)/ A3+	[ICRA]BBB (Positive)/ A3+	[ICRA]BBB- (Stable)/A3	--		

@ rating placed on Watch with Negative Implications

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based- Cash Credit	Simple
Fund-based- Term Loan	Simple
Non-fund Based - Letter of Credit/Bank Guarantee	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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based - Cash Credit	NA	NA	NA	240.00	[ICRA]BBB-(Negative)
NA	Fund based - Term Loan	FY2015	NA	FY2027	251.56	[ICRA]BBB-(Negative)
NA	Non-fund Based - Letter of Credit/Bank Guarantee	NA	NA	NA	60.00	[ICRA]A3

Source: NDL

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**Annexure II: List of entities considered for consolidated analysis- Not Applicable**

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