The Indian Card Clothing Company Limited

November 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	5.60	5.60	[ICRA]BBB; downgraded from [ICRA]BBB+; outlook revised to Negative from Stable
Working capital demand loan	1.00	1.00	[ICRA]BBB; downgraded from [ICRA]BBB+; outlook revised to Negative from Stable
Fund-based working capital	9.00	9.00	[ICRA]BBB / [ICRA]A3+; downgraded from [ICRA]BBB+ / [ICRA]A2; outlook revised to Negative from Stable
Non-fund based	2.00	2.00	[ICRA]A3+; downgraded from [ICRA]A2
Total	**17.60**	**17.60**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB+ (pronounced ICRA triple B plus) and the short-term rating to [ICRA]A3+ (pronounced ICRA A three plus) from [ICRA]A2 (pronounced ICRA A two) for the Rs. 17.60-crore[1] bank limits of The Indian Card Clothing Company Limited (ICC or the company)[2]. The outlook on the long-term rating has been revised to Negative from Stable.

Rationale

The downgrade in ratings takes into account the deterioration in the company's financial risk profile in H1FY2019 as a result of continued operating and net losses due to weak performance of the card clothing division. The revision in rating outlook revision in the rating outlook factors in the expected pressure on ICC's profitability and revenues in the near term, given the delay in shifting its complete operations from Pimpri (Pune, Maharashtra) to Nalagargh (Himachal Pradesh). The ratings continue to remain constrained by increased working capital requirements due to rising inventory levels; exposure to sectoral concentration risks with the cotton textile industry accounting for over 80% of the company's revenues; and the susceptibility of ICC's profitability to foreign exchange fluctuation risks owing to its unhedged export receivables.

Nonetheless, the ratings continue to draw comfort from the comfortable capital structure and adequate liquidity position of the company underpinned by a healthy liquid investment portfolio and access to stable monthly unsecuritised rental income. The ratings continue to favourably factor in the long track record of ICC in the card clothing business, along with its established and diversified customer base and strong competitive position in the card clothing segment. ICRA has also taken note of discontinuation of manufacturing operations of the company's Pune plant with effect from April 2018, following the amicable settlement with the unionised work force, which is expected to result in material savings in the employee costs, going forward. Nonetheless, a meaningful recovery in the card clothing division on the

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

back of improved demand and cost benefits accrued to the company from shifting its entire manufacturing operations to its Himachal Pradesh plant is yet to be seen and will be a key rating sensitivity.

Outlook: Negative

The negative outlook factors in the expected pressure on ICC's profitability and revenues in the near term, given the delay in shifting its complete operations from Pimpri (Pune, Maharashtra) to Nalagargh (Himachal Pradesh). The outlook may be revised to Stable if the company is able to achieve healthy turnaround of card clothing operations on the back of increased revenues and improved profitability, while efficiently managing its working capital cycle. The ratings might be downgraded if the card clothing division continues to report weak profitability, and/or there is a stretch in the working capital cycle leading to weakening of the financial profile of the company.

Key rating drivers

Credit strengths

Long track record and strong competitive position of the company in the card clothing business - Incorporated in 1955, ICC has a long track record of over six decades in supplying card clothing and card room accessories to the textile spinning industry. Through its vast experience and institutional knowledge, the company has built a strong competitive position, and is also an established player in the card clothing business in the country.

Established and diversified customer base - ICC has been present in the card clothing business for more than six decades and hence has established business relations with its clients. The customer profile of ICC continues to remain diversified, comprising mainly cotton spinning mills, with its top 10 customers accounting for 10-15% of the total revenues. ICC has been able to cater to both domestic as well as export customers because of the wide range of card clothing products that it offers. Historically, ~25% of ICC's card clothing revenues are derived from export sales.

Comfortable capital structure and adequate liquidity position underpinned by a healthy liquid investment portfolio – ICC's reliance on external borrowing has historically remained low. The capital structure has remained comfortable in the last five fiscals with gearing below 0.20 time as on each fiscal end. As on September 30, 2018, total debt of the company stood at Rs. 12.28 crore (increased from Rs. 12.01 crore as of March 31, 2018) and comprised term loans of Rs. 1.51 crore and working capital limits of Rs. 10.76 crore, while the gearing remained comfortable at 0.17 time. Liquidity of the company continued to remain adequate, given the sizeable portfolio of liquid investments. As on September 30,2018, the company's cash balances and investments stood at Rs 49.73 crore, largely comprising of liquid mutual funds and tax-free bonds. Additionally, ICC derives a steady monthly rental income of Rs. 0.48 crore by leasing a commercial property and a residential apartment in Mumbai. This is an unencumbered income, which directly adds to the operating profitability of the company and compensates substantially for the heavy operating losses incurred by the card clothing division.

Credit concerns

Deterioration in financial risk profile in H1FY2019 due to continued operating losses from card clothing division and heavy net losses - The card clothing division of ICC has been reporting cash losses for the last 10 quarters because of high employee costs, which have not been adequately covered by sufficient revenues. The delay in shifting its complete operations to its Himachal Pradesh plant with lower overheads compared to its Pune plant, coupled with inadequate revenues and increased raw material consumption charges continued to impact the operating profitability of the card clothing division in H1FY2019. On y-o-y basis, the company reported 23% decline in operating income in H1FY2019 to Rs 22.20 crore as compared to Rs 28.93 crore in H1FY2018. The operating loss in H1FY2019 increased substantially to Rs 6.02 crore as compared to Rs 0.40 crore in H1FY2018. At net level also, the loss increased to Rs 10.12 crore in H1FY2019 from Rs 0.74 crore in H1FY2018. Given the losses at operating as well as net level, the company's debt coverage indicators comprising interest coverage, Total Debt/OPBDITA and NCA/Total debt remained negative in H1FY2019.

Increased working capital requirements due to higher inventory levels – ICC's working capital borrowings increased substantially compared to past fiscals, on account of higher inventory levels required to be maintained, given the increased reliance on imports following the raw material supply constraints faced in the last two fiscals. As on September 30,2018, the inventory levels stood high at 138 days. The cash credit facility of the company has remained almost fully utilised in the last 15-18 months and the company has relied on working capital demand loan facility of Rs. 1.00 crore along with additional overdraft limits against liquid mutual fund investments to fund its increasing working capital requirements. Given the weak operational performance and stretched working capital position, the company has been stretched its creditors and is re-negotiating the payment terms with them to support the working capital cycle. The creditor days increased substantially to 280 days as on September 30,2018.

Sectoral concentration risks, given the high dependence on the cotton textile spinning sector for revenue generation - Manufacturing card clothing is the core operations of ICC and contributes 90% to its total operating revenues. The demand for card clothing in the re-clothing market is entirely dependent on the current installed capacity of carding machines, their production rate and consumption of fibre. Any slowdown in demand in the textile spinning industry, particularly cotton, directly impacts the prospects of ICC.

Exposure to foreign exchange fluctuation risk owing to unhedged export receivables - ICC derives around 25% of its card clothing sales from exports. In the absence of any firm hedging mechanism, its profitability remains vulnerable to any unfavourable movement in foreign exchange rates.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated on June 24, 1955, as a private limited company, The Indian Card Clothing Company Limited was converted into a public limited company on March 27, 1975. ICC has been associated with the textile spinning industry for the past 55 years and is engaged in supplying card clothing and card room accessories. At present, the Mauritius-based, Multi Act Industrial Enterprises Limited (MAIL), promoted by the Trivedi family and a few other shareholders, is the holding company of ICC with a stake of 57.35% in the equity share capital. ICC operates through two business verticals—card clothing and realty. While card clothing is its core operating business, ICC generates regular income from real estate as well as treasury operations. The company has two card manufacturing facilities, one each at Pimpri (Pune, Maharashtra) and Nalagarh (Himachal Pradesh). ICC has three subsidiaries, namely Garnett Wire Limited (60% shareholding), ICC International Agencies Limited (wholly owned subsidiary) and Shivraj Sugar & Allied Products Pvt. Ltd. (94% shareholding).

In FY2018, on standalone basis, ICC reported a net loss of Rs. 17.81 crore on an operating income of Rs. 59.18 crore, as compared to a net profit of Rs. 14.52 crore on an operating income of Rs. 51.52 crore in the previous year. In 6MFY2019, on standalone basis, ICC reported a net loss of Rs 10.12 crore on an operating income of Rs 22.20 crore.

Key financial indicators

	FY 2016 (Audited)	FY2017 (Audited)	FY2018 (Audited)	6MFY2019 (Provisional)
Operating Income (Rs. crore)	65.83	51.52	59.18	22.20
PAT (Rs. crore)	13.60	14.52	-17.81	-10.12
OPBDIT/ OI (%)	7.71%	-7.16%	-12.63%	-27.13%
RoCE (%)	18.36%	19.01%	-20.31%	-19.34%
Total Debt/ TNW (times)	0.08	0.10	0.14	0.17
Total Debt/ OPBDIT (times)	1.49	-2.80	-1.61	-1.02
Interest coverage (times)	6.29	-2.01	-3.10	-5.83

* As per Ind AS; ^ As per IGAAP

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating November 2018	Date & Rating in FY2019 June 2018	Date & Rating in FY2018 January 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 July 2016
1	Term loans	Long Term	5.60	1.51	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A (Stable)
2	WCDL	Long Term	1.00	1.00	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A (Stable)
3	Fund based working capital	Long /Short term	9.00	-	[ICRA]BBB(Negative) /[ICRA] A3+	[ICRA]BBB+ (Stable) /[ICRA] A2	[ICRA]A- (Negative) /[ICRA] A2+	[ICRA]A- (Stable) /[ICRA] A2+	[ICRA]A (Stable)/ [ICRA]A1
4	Non-fund based	Short Term	2.00	-	[ICRA] A3+	[ICRA] A2	[ICRA] A2+	[ICRA] A2+	-

** as on March 31, 2018*

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	Term loan 1	January 2017	9.90%	FY2019	1.00	[ICRA]BBB (Negative)
NA	Term loan 2	January 2017	9.90%	FY2023	5.60	[ICRA]BBB (Negative)
NA	WCDL	January 2017	9.90%	FY2019	1.00	[ICRA]BBB (Negative)
NA	Fund based working capital	-	9.90%	-	9.00	[ICRA]BBB (Negative) /[ICRA] A3+
NA	Non-fund based	-	-	-	2.00	[ICRA] A3+

Source: ICC

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About ICRA Limited:

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