

June 03, 2019

The Indian Card Clothing Company Limited: Ratings downgraded; Outlook revised to Stable

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	5.60	5.60	[ICRA]BB+; downgraded from [ICRA]BBB; Outlook revised to Stable from Negative
Working capital demand loan	1.00	1.00	[ICRA]BB+ ; downgraded from [ICRA]BBB; Outlook revised to Stable from Negative
Fund-based working capital	9.00	9.00	[ICRA]BB+ / [ICRA]A4+; downgraded from [ICRA]BBB / [ICRA]A3+ ; Outlook revised to Stable from Negative
Non-fund based	2.00	2.00	[ICRA]A4+; downgraded from [ICRA]A3+
Total	17.60	17.60	

*Instrument details are provided in Annexure-1

Rationale

The downgrade in ratings factors in the sharp deterioration in the financial risk profile of The Indian Card Clothing Company Limited (ICC or the company) in FY2019 , with increasing operating and net losses due to weak performance of the card clothing division, rise in working capital requirements due to increased inventory levels, and reduced liquidity buffer available with the company given the sizeable decline in its cash and investment position as on March 31,2019, on account of funding of losses and settlement of wage dues for its discontinued Pune facility. The ratings continue to remain constrained by the company's exposure to sectoral concentration risks with the cotton textile industry accounting for over 80% of its revenues; and susceptibility of ICC's profitability to foreign exchange fluctuation risks owing to its unhedged export receivables.

Nonetheless, the ratings favourably factor in the long track record of ICC in the card clothing business, along with its established and diversified customer base. The rating also positively factors in the company's healthy net worth base and access to stable monthly unsecuritised rental income.

Outlook: Stable

ICRA believes that completion of shifting process from Pune to Himachal Pradesh will help ICC post some improvement in its revenues and profitability in coming future. However, a meaningful recovery in the card clothing division on the back of improved demand and cost benefits accrued to the company from shifting of manufacturing operations is yet to be seen and will be a key rating sensitivity. The outlook may be revised to Positive 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 outlook may be revised to negative if the card clothing division continues to report weak profitability, and/or there is a further 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.

Healthy net worth base; steady monthly unencumbered rental income supports profitability to a large extent – 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 FY 2019, driven by healthy net-worth base. ICC derives a steady monthly rental income of ~Rs. 0.50 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

Sharp deterioration in the financial risk profile in FY2019 due to continued heavy operating and net losses; reduction in liquidity level - The card clothing division of ICC has been reporting cash losses for the last 12 quarters because of high overheads, 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 FY2019. On y-o-y basis, the company reported 22% decline in operating income in FY2019 to Rs 46.27 crore as compared to Rs 59.18 crore in FY2018. The operating loss in FY2019 increased substantially to Rs 14.50 crore as compared to Rs 7.48 crore in FY2018. At net level, the loss increased to Rs 19.68 crore in FY2019 from Rs 17.81 crore in FY2018. Given these losses, the company's debt coverage indicators comprising interest coverage, Total Debt/OPBDITA and NCA/Total debt remained negative in FY2019. The company's liquidity position has witnessed substantial reduction during FY2019 owing to heavy cash losses and outflow towards compensation to be paid to Pune employee as per agreed Voluntary Retirement Scheme. Its cash and investment balance declined to Rs 29.83 crore as on March 31, 2019 from Rs 66.78 crore as on March 31, 2018.

Increased working capital requirements due to higher inventory levels – ICC's working capital borrowings increased substantially compared to past fiscals, because 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 March 31, 2019, the company's inventory levels stood high at 121 days while its debtors stood at ~87 days. The cash credit facility of the company has remained almost fully utilised in the last 15-18 months. Given the weak operational performance and stretched working capital position, the company has stretched its creditors and is re-negotiating the payment terms with them to support the working capital cycle. The creditor days continued to remain substantially high at 228 days as on March 31, 2019 and 255 days as on March 31, 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.

Liquidity position

ICC's operations have been impacted in the last two fiscals by heavy operating losses incurred in the card clothing division, and its elevated receivable and inventory levels. The average monthly utilisation of sanctioned fund based working capital limits has remained full during the last 15-18 months. The liquidity position has undergone sizeable reduction during FY2019. As of March 31, 2019, ICC's cash balances and investments stood at Rs. 29.83 crore (reduced from Rs 66.78 crore as on March 31, 2018) comprising liquid mutual funds of Rs 16.43 crore, tax-free bonds of Rs 10.58 crore and equity investments of Rs 0.24 crore. Its repayments for next two fiscals remain modest at Rs 0.67 crore in FY2020 and Rs 0.74 crore in FY2021.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

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 FY2019, on standalone basis, ICC reported a net loss of Rs. 19.68 crore on an operating income of Rs. 46.27 crore, as compared to a net loss of Rs. 17.81 crore on an operating income of Rs. 59.18 crore in the previous year.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	51.52	59.18	46.27
PAT (Rs. crore)	14.52	-17.81	-19.68
OPBDIT/ OI (%)	-7.16%	-12.63%	-31.33%
RoCE (%)	19.01%	-20.31%	-20.27%
Total Debt/ TNW (times)	0.10	0.14	0.20
Total Debt/ OPBDIT (times)	-2.80	-1.61	-0.87
Interest coverage (times)	-2.01	-3.10	-5.57

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Chronology of Rating History for the past 3 years									
Current Rating (FY2019)									
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstandi ng* (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2019 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	2.89	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A (Stable)
2 WCDL	Long Term	1.00	0.00	[ICRA]BB+ (Stable)	[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]BB+ (Stable) /[ICRA] A4+	[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] A4+	[ICRA] A3+	[ICRA] A2	[ICRA] A2+	[ICRA] A2+	-

* as on March 31, 2019

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	January 2017	-	FY2023	5.60	[ICRA]BB+ (Stable)
NA	WCDL	January 2017	-	FY2019	1.00	[ICRA]BB+ (Stable)
NA	Fund based working capital	-	-	-	9.00	[ICRA]BB+ (Stable) / [ICRA] A4+
NA	Non-fund based	-	-	-	2.00	[ICRA] A4+

Source: ICC

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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