

October 15, 2019

The Indian Card Clothing Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan (TL)	5.60	5.60	[ICRA]BB+ (Stable); reaffirmed
Working capital demand loan (WCDL)	1.00	1.00	[ICRA]BB+ (Stable); reaffirmed
Fund-based working capital	9.00	9.00	[ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed
Non-fund based	2.00	2.00	[ICRA]A4+; reaffirmed
Total	17.60	17.60	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation favourably factors in The Indian Card Clothing Company Limited's (ICC's) long track record 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 a stable monthly, unsecuritised rental income. However, the rating continues to remain constrained by ICC's weak financial profile characterised by continued operating and net losses due to the weak performance of the card clothing division, rise in working capital requirements due to the increased inventory levels, and reduced liquidity buffer due to the sizeable decline in ICC's cash and investment position in the last two fiscals. The rating also remains constrained by the company's exposure to sector-specific concentration risks with the cotton textile industry accounting for over 90% of its revenues, and the susceptibility of its profitability to foreign exchange fluctuation risks owing to its unhedged export receivables.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that ICC will continue to benefit from its established and long track record of over six decades in supplying card clothing and card room accessories to the textile spinning industry. The completion of its shift of operations from Pune to Himachal Pradesh is expected to help ICC post some improvement in its revenues and profitability, although a meaningful recovery in the card clothing division is yet to be seen and will be a key rating sensitivity. The unsecuritised monthly rental income is expected to continue and provide some support to the profitability of the company.

Key rating drivers and their description

Credit strengths

Long track record in card clothing business - 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 extensive experience and institutional knowledge, the company has built a strong competitive position, and is an established player in the card clothing business in the country.

Established and diversified customer base - ICC's long presence in the card clothing business has resulted in established business relations with its clients. Its customer profile remains diversified, comprising mainly cotton spinning mills, with its top five customers accounting for 8-12% of the total revenues. ICC caters to both domestic as well as export customers, as it offers a wide range of card clothing products. Historically, ~25% of ICC's card clothing revenues were derived from export sales.

Healthy net worth; steady monthly unencumbered rental income supports profitability to large extent - ICC's reliance on external borrowing has historically remained low. The capital structure remained comfortable in the last five fiscals with gearing of 0.20 time as on March 31, 2019, driven by a healthy net worth. ICC derives a steady monthly rental income of ~Rs. 0.50 crore by leasing of a residential property in Mumbai. This is an unencumbered income, which directly adds to its operating profitability and compensates substantially for the heavy operating losses incurred by the card clothing division.

Credit challenges

Weak financial risk profile due to continued heavy operating and net losses; reduction in liquidity position in last two fiscals – ICC's card clothing division reported cash losses for the two fiscals because of high overheads, which were not covered by sufficient revenues. The delay in shifting the 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 a YoY basis, the company reported a 22% decline in operating income in FY2019 to Rs. 46.27 crore from Rs. 59.18 crore in FY2018. The operating loss in FY2019 increased substantially to Rs. 14.50 crore from 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 witnessed a substantial reduction in FY2019, owing to heavy cash losses and outflow towards compensation to be paid to its Pune employees as per the 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. The operating and net losses have continued in Q1 FY2020, though the extent of losses reported is lower on a YoY as well as a QoQ basis.

Increased working capital requirements due to higher inventory levels - ICC's working capital borrowings increased substantially over recent fiscals because of higher inventory level requirements, 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 remained almost fully utilised in the last 15 months. Given weak operational performance and stretched working capital position, the company's creditor days also remained high at 228 as on March 31, 2019 and 255 as on March 31, 2018. Nonetheless, the company has been able to get consistent supply of quality raw material from Jindal Steel & Power Limited in the past few months, which has reduced the overall imports and inventory levels in the current fiscal.

Sector-specific concentration risk, given high revenue dependence on cotton textile spinning sector - Manufacturing card clothing, ICC's core operation, 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 ICC's prospects.

Exposure to forex fluctuation risk owing to unhedged export receivables - ICC derives ~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: Adequate

As on 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 mutual funds of Rs. 16.43 crore, tax-free bonds of Rs. 10.58 crore and equity investments of Rs. 0.24 crore. Nonetheless, despite the reduction, liquidity position remains adequate in absence of any major capex plan and modest term loan repayments of Rs. 0.67 crore in FY2020 and Rs. 0.74 crore in FY2021. Over the last two fiscals, ICC's operations were impacted by heavy operating losses incurred in the card clothing division, as well as by elevated receivable and inventory levels. The average monthly utilisation of sanctioned fund-based working capital limits remained full during the last 15 months.

Rating sensitivities

Positive triggers: ICRA could upgrade ICC's rating if it demonstrates healthy turnaround of its card clothing operations on the back of increased revenues and profitability. Sustained improvement in debt coverage indicators and working capital cycle leading to better liquidity would also be triggers for a rating upgrade.

Negative triggers - Negative pressure on ICC's rating could arise if its liquidity position is impacted by continued operating and net losses, stretched working capital cycle and/or sizeable unanticipated capital expenditure.

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, associated with the textile spinning industry for the last 55 years, supplies 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 ICC's holding company 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). The company has three subsidiaries, Garnett Wire Limited (60% shareholding), ICC International Agencies Limited (wholly-owned subsidiary) and Shivraj Sugar & Allied Products Pvt. Ltd. (94% shareholding).

In FY2019, on a standalone basis, ICC reported a net loss of Rs. 19.68 crore on an operating income (OI) of Rs. 46.27 crore, compared to a net loss of Rs. 17.81 crore on an OI of Rs. 59.18 crore in the previous year. In Q1FY2020, on a standalone basis, ICC reported net loss of Rs 3.15 crore on an OI of Rs 12.51 crore.

Key financial indicators (Standalone)

	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 Outside Liabilities/Tangible Net Worth (times)	0.36	0.65	0.56
Total Debt/OPBDIT (times)	-2.80	-1.61	-0.87
Interest Coverage (times)	-2.01	-3.10	-5.57
DSCR (excluding short term debt / prepayments)	8.52	-4.77	-4.89

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S N	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating		FY2019		FY2018		FY2017
					15-Oct-2019	03-Jun-2019	12-Nov-2018	05-Jun-2018	17-Jan-2018	26-May-2017	18-Jul-2016
1	Term Loans	Long Term	5.60	2.89*	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A (Stable)
2	WCDL	Long Term	1.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A (Stable)
3	Fund-based Working Capital	Long Term / Short Term	9.00	-	[ICRA]BB+ (Stable) / [ICRA]A4+	[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]A4+	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	-

Amount in Rs. crore

* 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	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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