August 20, 2020

# The Indian Card Clothing Company Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term, Fund Based - Term loan | 5.60 | - | - |
| Long Term, Fund Based - WCDL | 1.00 | 1.00 | [ICRA]BB+ (Stable); reaffirmed |
| Long Term, Fund Based - Cash Credit | 9.00 | 9.00 | [ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed |
| Short Term, Non-fund based | 2.00 | 2.00 | [ICRA]A4+; reaffirmed |
| Long Term – Unallocated Amount | - | 5.60 | [ICRA]BB+ (Stable); reaffirmed |
| **Total** | **17.60** | **17.60** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation continues to favourably factor in The Indian Card Clothing Company Limited's (ICC's) long track record in the card clothing business, its healthy net worth base, comfortable liquidity position and access to a stable monthly, unencumbered rental income, along with an established and diversified customer base.

The ratings, however, continue 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 and increased working capital requirement in FY2020, leading to reduced liquidity buffer and 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 80% of its revenues, and the susceptibility of its profitability to foreign exchange fluctuation risks owing to its unhedged export receivables. ICRA notes that as per last rating release in January 2020, there was a fire reported in its plant in Pune, which was non-operational for a year, however, and as per discussion with the management there was no material impact of the same on the operations.

ICRA also notes a recent development wherein the holding company, Multi-Act Industrial Enterprises Limited, Mauritius (MAIEL), might infuse funds up to Rs. 14.60 crore by way of preferential issue of equity shares by ICC, subject to receipt of requisite approvals from the shareholders at the forthcoming annual general meeting. The shareholding of MAIEL will increase to 67.33% post the preferential issue from 57.35% currently. However, the timeline and purpose of the funds to be received has not been finalised and ICRA will continue to monitor the developments in this regard and would evaluate the impact of the same on the business profile of the company.

The Stable outlook on the [ICRA]BB+ rating reflects ICC will continue to benefit from the completion of its shift of operations from Pune to Himachal Pradesh, which has helped ICC reduce operating and administrative costs, thereby improving profitability. Although a meaningful recovery in the card clothing division is yet to be seen and will be a key rating sensitivity. The unencumbered 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. This has also helped ICC forge strong relationships with its clients, while keeping its customer profile well diversified. The customer profile is mainly made up of cotton spinning mills, with the top five customers accounting for 8-12% of the total revenues.

**Sound capital structure and comfortable liquidity position** - ICC's reliance on external borrowing has historically remained low. The capital structure remained comfortable in the last five fiscals with gearing of 0.30 time as on March 31, 2020, driven by a healthy net worth. ICC's liquidity position is adequate with cash and liquid investments of Rs. 16.71 crore as on March 31, 2020, resulting in Net Debt/TNW of only 0.01 time. The company has availed an ECB facility of $2.5 million from the parent company to repay term loan outstanding from HDFC Bank and for general business purposes. $1 million had been received in Q4 FY2020 and the balance is to be received in FY2021. The facility carries a moratorium of five years from the date of drawdown and will be paid in four, half-yearly instalments. This is expected to improve the liquidity position of the company and support working capital requirements.

**Steady monthly unencumbered rental income supports profitability to large extent** - ICC derives a steady monthly rental income of ~Rs. 0.50-0.60 crore by leasing a residential property in Mumbai. This is an unencumbered income, which directly adds to its operating profitability and compensates substantially for the operating losses incurred by the card clothing division.

## Credit challenges

**Weak financial risk profile due to continued operating and net losses –** ICC's card clothing division reported cash losses for the last two fiscals because of high overheads, which were not covered by sufficient revenues. However, the company reported an increase of 11%, YoY in operating income to Rs. 51.28 crore in FY2020 from Rs. 46.27 in FY2019 mainly due to higher exports. The operating losses substantially decreased to Rs. 1.24 crore in FY2020 from Rs. 14.50 crore in FY2019 due to reduction in employee cost and other general and administrative expenses. At the net level, the company's losses decreased to Rs. 4.18 crore in FY2020 from Rs. 19.68 crore in FY2019 and was supported by profit of Rs. 3.24 crore from sale of fixed assets. Given these losses, the company's debt coverage indicators, comprising interest coverage and Total Debt/OPBDITA, remained negative while NCA/Total Debt was 1% as on March 31, 2020. ICRA notes that the operations of the company have been impacted during Q1FY2021 due to the outbreak of COVID-19 pandemic, however on full year basis recovery is expected with better sourcing and overhead management. ICRA, however, will continue to closely monitor the developments regarding the pandemic and its impact on ICC's business profile.

**Rise in working capital requirement in FY2020** - 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. The company's cash and liquid investment balance decreased to Rs. 21.86 crore as on March 31, 2020 from Rs. 29.83 crore. The working capital intensity increased in

FY2020 due to reduced payable days to 167 as on March 31, 2020 from 228 as on March 31, 2019 and repayment of security deposits held for properties leased out. The company is now looking to reduce the dependence on imports by substituting them with local purchases, which is expected to improve the working capital cycle. The cash credit limit utilisation remained fully utilised during FY2020. The ECB inflows from the parent company is also expected to reduce working capital limit utilisation in FY2021.

**Sector-specific concentration risk, given high revenue dependence on cotton textile spinning sector** - Manufacturing card clothing drives ~85% of ICC's total 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. A 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 has historically derived ~25% of its revenues from the export segment, except for FY2020, when it had increased to 34%. In the absence of any firm hedging mechanism, its profitability remains vulnerable to any unfavourable movement in foreign exchange rates.

## Liquidity position: Adequate

Although the company has incurred net losses in FY2020, the liquidity position remains adequate with healthy cash and liquid investments, absence of any major capex plan and no term loan repayment obligations over the next five years. As on March 31, 2020, ICC's cash balances and investments stood at Rs. 21.86 crore (reduced from Rs. 29.83 crore as on March 31, 2019) comprising mutual funds of Rs. 9.93 crore and tax-free bonds of Rs. 5.15 crore.

## Rating sensitivities

**Positive triggers:** ICRA could upgrade ICC's rating if it demonstrates healthy turnaround of card clothing operations, resulting from increased revenues and reduced operating costs, leading to positive 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** - Downward pressure on the rating could emerge if the slowdown in demand from the user industry continues to impact the turnover and profitability, resulting in weak financial performance. Any stretch in the working capital cycle or sizeable increase in external debt, impacting liquidity, will also be a trigger for a rating downgrade.

## 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 operations. The company has a card manufacturing facility in 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 FY2020, on a standalone basis, ICC reported a net loss of Rs. 4.18 crore on an operating income (OI) of Rs. 51.28 crore compared to a net loss of Rs. 19.68 crore on an OI of Rs. 46.27 crore in the previous year.

## Key financial indicators (Standalone)

| | FY2018 (Audited) | FY2019 (Audited) | FY2020 (Audited) |
|---|---|---|---|
| Operating Income (Rs. crore) | 59.18 | 46.27 | 51.28 |
| PAT (Rs. crore) | -17.81 | -19.68 | -4.18 |
| OPBDIT/OI (%) | -12.63% | -31.33% | -2.43% |
| RoCE (%) | -20.31% | -20.27% | -0.56% |
| | | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.65 | 0.56 | 0.51 |
| Total Debt/OPBDIT (times) | -1.61 | -0.87 | -14.01 |
| Interest Coverage (times) | -3.10 | -5.57 | -0.45 |
| DSCR (excluding short term debt / prepayments) | -4.77 | -4.89 | 0.88 |

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

## Any other information: None

## Rating history for past three years

| SN | Instrument | Current Rating (FY2021) | | | | Rating History for the Past 3 Years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2020 | | FY2019 | | FY2018 | |
| | | | | | 20-Aug-2020 | 15-Oct-2019 | 03-Jun-2019 | 12-Nov-2018 | 05-Jun-2018 | 17-Jan-2018 | 26-May-2017 |
| 1 | Term Loans | Long Term | - | - | - | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BBB (Negative) | [ICRA]BBB+ (Stable) | [ICRA]A- (Negative) | [ICRA]A- (Stable) |
| 2 | WCDL | Long Term | 1.00 | - | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BBB (Negative) | [ICRA]BBB+ (Stable) | [ICRA]A- (Negative) | [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]BB+ (Stable) /[ICRA]A4+ | [ICRA]BBB (Negative) /[ICRA]A3+ | [ICRA]BBB+ (Stable) /[ICRA]A2 | [ICRA]A- (Negative) /[ICRA] A2+ | [ICRA]A- (Stable) /[ICRA] A2+ |
| 4 | Non-fund Based | Short Term | 2.00 | - | [ICRA]A4+ | [ICRA]A4+ | [ICRA]A4+ | [ICRA]A3+ | [ICRA]A2 | [ICRA]A2+ | [ICRA]A2+ |
| 5 | Unallocated | Long Term | 5.60 | - | [ICRA]BB+ (Stable) | - | - | - | - | - | - |

*Amount in Rs. crore*

## 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 click here

## Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | WCDL | January 2017 | - | - | 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+ |
| NA | Unallocated amount | - | - | - | 5.60 | [ICRA]BB+ (Stable) |

*Source: ICC*

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

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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