December 11, 2020

Indo Count Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long Term - Fund Based/Cash Credit	525.00	525.00	[ICRA]A+ (Stable); reaffirmed
Long Term - Fund Based/Term Loan	71.44	50.02	[ICRA]A+ (Stable); reaffirmed
Short-term Non-fund Based	230.00	230.00	[ICRA]A1; reaffirmed
Total	**826.44**	**805.02**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in Indo Count Industries Limited's (ICIL) improving operating performance in the current year, supported by favourable demand from the export markets. While the performance remained subdued in Q1 FY2021 due to pandemic induced demand slowdown across the globe, ICRA expects the company's revenue growth in FY2021 to be driven by supportive demand in its key US market. The company reported an operating income of Rs. 1,060.0 crore and an operating margin of 15.6% in H1 FY2021. The improvement in the operating performance also led to an improvement in the company's liquidity profile, with unencumbered cash and liquid investments of Rs. 221.1 crore as on September 30, 2020 against Rs. 139.4 crore as on March 31, 2020. The ratings also consider the comfortable capitalisation and coverage metrics, as depicted by a low gearing of 0.3 times, as on September 30, 2020, and a healthy interest coverage ratio of 16.4 times in H1 FY2021. The ratings also derive comfort from the long track record of the promoters in the textile industry and the company's healthy market position in the home textile segment in several countries including the US. ICIL is one of the largest exporters of cotton bed linen from India and is also among the largest suppliers of cotton bed linen in the US market. The ratings also factor in ICIL's established relationship with reputed customers and the superior quality of products handled.

The ratings are, however, constrained by the company's exposure to sales concentration risks, given that the top-3 customers accounted for more than 60% of its total sales in H1 FY2021 (51% in FY2020). While the risk is mitigated to some extent given the established and long relationship with these customers, any major customer loss in the future could impact the company's revenue growth prospects. Besides, the company derives about two-third of its revenues from the US market, which exposes it to geographical concentration risk. ICRA also notes that despite a formal hedging policy to cover 60-65% of its foreign currency exposure, currency volatility and dependence on exports (to the tune of more than 95% of sales), heighten ICIL's exposure to forex risks. The company's profitability also remains sensitive to volatility in the prices of its key raw materials, viz. cotton and cotton yarn. The ratings are also constrained by the working capital-intensive nature of operations due to high inventory holding requirements. ICRA notes that while the receivables have increased to 58 days as on September 30, 2020 from 46 days as on March 31, 2020, the counterparty credit risk is mitigated to a large extent by receivable factoring and Export Credit Guarantee Corporation (ECGC) cover for export receivables, and credit insurance policy for domestic receivables.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that demand from the home textile industry is expected to remain supportive in the near-to-medium term, which coupled with ICIL's leadership position in the export market, would lend comfort to its overall financial risk profile.

Key rating drivers and their description

Credit strengths

Improving operating performance – ICIL reported healthy revenues and profitability in H1 FY2021, supported by improved export demand. Despite a washout in April 2020 due to the nationwide lockdown to curb the Covid-19 pandemic, the company reported revenues of Rs. 1,060.0 crore and an operating margin of 15.6% in H1 FY2021, supported by demand recovery in the US. In Q2 FY2021, the company reported sales volumes of 22.8 million metres, its highest ever quarterly sales since inception. Going forward, the company's presence in health and hygiene-based bed linen products would drive the revenue growth, given the increased awareness due to the pandemic.

Improvement in liquidity profile – Healthy profitability in Q2 FY2021 led to an improvement in ICIL's liquidity profile. The company's unencumbered cash and liquid investments rose to Rs. 221.1 crore as on September 30, 2020 from Rs. 139.4 crore as on March 31, 2020. Unutilised fund-based limits of Rs. 244.9 crore (with a commensurate drawing power) provide additional comfort to ICIL's overall liquidity position.

Comfortable capitalisation and coverage metrics – ICIL's total debt, as on September 30, 2020, comprised term loans of Rs. 43.7 crore and working capital borrowings of Rs. 260.6 crore. Its capitalisation and debt protection metrics remained comfortable, with a gearing of 0.3 times as on September 30, 2020 and interest coverage ratio of 16.4 times in H1 FY2021.

Reputed clientele and superior product quality – ICIL is one of the largest cotton bed linen exporters from India and has a healthy market position in the home textile segment in the US. Its clientele includes reputed global retailers in the US and Europe. The company derives strength from its superior product quality, product innovation and timeliness of contract execution.

Extensive experience of promoters – ICIL was incorporated in 1988 and manufactures home textile products. The promoters have experience of over three decades in the textile business.

Credit challenges

Exposure to sales concentration risks – The company is exposed to sales concentration risks, given that the top-3 customers accounted for more than 60% of its total sales in H1 FY2021 (51% in FY2020). While the established and long-standing relationships with these customers provide comfort, ICRA believes that any major customer loss in the future could impact the company's business risk profile and would hence remain a key monitorable. ICIL is also exposed to geographical concentration risk as the US market accounted for two-third of its total revenues. Going forward, the company's ability to expand its revenue stream from the non-US markets would remain a key rating sensitivity.

Exposure to price and forex risks – The key raw materials of the company are cotton and cotton yarn, the prices of which have remained volatile in the past. High inventory holding requirements for the home textile division, in view of the high proportion of replenishment contracts, expose the company's operations to fluctuations in raw material prices. On the other hand, exports account for more than 95% of ICIL's total sales while the raw materials are procured from domestic suppliers, which expose the company to forex risks. While the company currently hedges 60-65% of its exposure on a rolling 12-month basis, the company's operations remain exposed to forex risks on the unhedged portion.

High working capital intensity – ICIL's operations are characterised by high working capital intensity due to a high inventory holding period. In the current fiscal, the company's receivables increased to 58 days as on September 30, 2020 against 46 days as on March 31, 2020, resulting in an increase in the working capital intensity (net working capital-to-operating income) to 34.4% as on September 30, 2020 from 30.4% as on March 31, 2020. Notwithstanding the increased receivables, the counterparty credit risk is mitigated to a large extent by the receivable factoring and ECGC cover for export receivables, and credit insurance policy for domestic receivables.

Liquidity position: Strong

ICIL's liquidity position is **strong** given the large unencumbered cash and liquid investments of Rs. 221.1 crore as on September 30, 2020, healthy cash generation from business expected in FY2021 and access to unutilised working capital limits of Rs. 244.9 crore as on September 30, 2020 (with commensurate drawing power). Against this, the company has debt repayments of Rs. 19.9 crore scheduled in FY2021 and the routine capex is likely to be Rs. 10-15 crore during the year.

Rating sensitivities

Positive triggers – ICRA could upgrade ICIL's ratings if the company is able to further increase its sales and profitability by expanding its presence in the non-US markets and/or if the return on capital employed remains above 25% on a sustained basis.

Negative triggers – Pressure on ICIL's ratings could arise in case of any large unanticipated debt-funded capex and/or any major revision in export incentive structure resulting in a moderation in profitability and/or customer loss in the US, and leading to a major drop in revenues. The return on capital employed remaining below 15% on a sustained basis could also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Spinning Indian Textiles Industry – Fabric
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial risk profile of ICIL. As on March 31, 2020, ICIL had 6 subsidiaries. These are enlisted in Annexure-2.

About the company

Indo Count Industries Limited (ICIL) was originally incorporated as M/s. Vishnu Aluminium Limited on November 7, 1988 with a view to set up a 100% export-oriented combed cotton yarn spinning unit. The company's name was changed to Indo Count Industries Limited in April 1990 and it then went public. In 1991, it commenced spinning operations with ~30,000 spindles and gradually scaled up to ~60,000 spindles.

As a part of its forward integration strategy, ICIL started the home textile division in 2007, encouraged by the untapped export market, particularly the US. Operations in this division began with an installed capacity of 360 lakh metres per annum, which was subsequently scaled up to 900 lakh metres per annum in FY2017. ICIL's manufacturing facility in Kolhapur, Maharashtra is currently equipped with ~60,000 spindles in the spinning division, and a bed linen manufacturing capacity of 900 lakh metres per annum. The home textile division is the mainstay of the company's revenues and its products are predominantly exported to customers based in the US and the UK.

In FY2020, on a consolidated level, ICIL reported a profit after tax (PAT) of Rs. 73.1 crore on an operating income (OI) of Rs. 2,129.6 crore compared to a PAT of Rs. 59.8 crore on an OI of Rs. 1,944.7 crore in FY2020.

Key financial indicators

Consolidated financials	FY2019	FY2020	H1 FY2021
Operating Income (Rs. crore)	1944.7	2129.6	1060.0
PAT (Rs. crore)	59.8	73.1	98.5
OPBDIT/OI (%)	8.5%	10.9%	15.6%
PAT/OI (%)	3.1%	3.4%	9.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7	0.5
Total Debt/OPBDIT (times)	2.0	1.5	0.9
Interest Coverage (times)	4.7	5.9	16.4

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; Source: ICIL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018	
					Dec-11-2020	Jul-19-2019	Feb-20-2019	Sep-07-2018	Aug-10-2017	Apr-10-2017
1	Cash credit	Long Term	525.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
2	Term Loan	Long Term	50.02	43.70*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
3	Non-fund based limits	Short Term	230.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore; *As on September 30, 2020*

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	Cash credit	-	-	-	525.00	[ICRA]A+ (Stable); reaffirmed
NA	Term Loan	FY2017	-	FY2025	50.02	[ICRA]A+ (Stable); reaffirmed
NA	Non-fund based limits	-	-	-	230.00	[ICRA]A1; reaffirmed

Source: ICIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Pranavaditya Spinning Mills Limited	74.53%	Full consolidation
Indo Count Retail Ventures Private Limited	100%	Full consolidation
Indo Count Global Inc., USA	100%	Full consolidation
Indo Count UK Limited	100%	Full consolidation
Indo Count Australia Pty Limited	100%	Full consolidation
Indo Count Global DMCC	100%	Full consolidation

Source: ICIL

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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.

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