February 16, 2023

Indo Count Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	50.02	358.51	[ICRA]AA-(Stable); reaffirmed/assigned for enhanced amount
Long-term Fund based – Cash Credit	525.00	1,260.00	[ICRA]AA-(Stable); reaffirmed/assigned for enhanced amount
Short term non-fund based limits	230.00	137.00	[ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated Limits	-	7.85	[ICRA]AA-(Stable)/[ICRA]A1+; assigned
Total	**805.02**	**1,763.36**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation reflects the adequate performance of Indo Count Industries Limited (ICIL) in FY2022 and 9M FY2023 despite strong industry-wide headwinds in the form of subdued export demand and input cost inflation. With cost pressure abating to a large extent, ICRA expects the company's operating performance to improve over the medium term, supported by its established position as one of India's leading home textiles exporters and long-term relationships with key customers, although the demand trend from key export markets remains a key monitorable. ICIL's revenue growth remained muted in 9M FY2023 with an operating income of Rs. 2,204 crore (Rs. 2,188 crore in 9M FY2022) despite the acquisition of GHCL's home textile business in April 2022. While its operating margin contracted to some extent on account of high cotton prices and lower fixed cost absorption, at an absolute level, it remained comfortable at 14.1% in 9M FY2023. The industry has been countering headwinds of weak demand amid rising inflation in the developed countries, destocking by large global retailers and high input costs. ICRA expects improvement in ICIL's performance, going forward, on the back of moderation in cotton prices, normalisation of freight costs, increasing backward integration and improving geographical diversification of revenue over the medium term. ICIL's capital structure remains comfortable with a gearing of 0.6 times as on September 30, 2022 despite a substantial increase in debt over the last two years to fund growth capex and acquisition. In FY2023, ICIL is expected to incur a total capex of ~Rs. 460 crore, partly financed by term debt of ~Rs. 240 crore. However, the capex requirements are likely to drop significantly from FY2024. ICIL's coverage metrics have moderated with the interest cover reducing to 6.7 times and net debt/OPBDITA increasing to 1.7 times in H1 FY2023. While the metrics are likely to remain lower in FY2023 compared to FY2022 levels, the coverage indicators are expected to improve in FY2024.

The ratings continue to favourably factor in ICIL's established market position as one of the largest home textile exporters in India along with long-term relationships with large customers, which lends stability to business. The extensive experience of its promoters in the industry continue to support the ratings. The ratings also consider ICIL's healthy net worth base of more than Rs. 1,500 crore, comfortable gearing and adequate liquidity buffer as on September 30, 2022.

The ratings, however, continue to remain constrained by the high geographical and customer concentration of revenue, with exports to the US accounting for about 3/4th of the revenue and the top-3 customers accounting for ~39% of revenue in H1 FY2023 (58% in FY2022). These expose the company to geo-political risks and the risk of loss of a major customer impacting its revenue. The risks are, however, partly mitigated by long-term relationships with key customers. The ratings also consider the working capital intensive nature of business due to high inventory holding requirements owing to seasonal availability of raw material (cotton). The vulnerability of ICIL's revenue and earnings to volatility in cotton prices and fluctuation in foreign exchange rates also constrain the ratings.

The Stable outlook on the long-term ratings reflects ICRA's expectations of an improvement in ICIL's coverage indicators over the next 12 months. The company's cash flows are likely to remain comfortable relative to its debt repayment obligations, which remain on the lower side given the limited long-term debt as on September 30, 2022. Moreover, a considerable working capital headroom available with ICIL supports its liquidity.

Key rating drivers and their description

Credit strengths

Established presence in the home textile industry – ICIL has established itself as one of India's leading home textile exporters with a sizeable capacity of 135 million metres per annum [p.a.] (likely to increase to 153 million metres p.a. after completion of the ongoing capex). Its product portfolio includes bed sheets and pillow covers along with high value-added top-of-the-bed products in the institutional, fashion and utility bedding categories. ICIL's large capacity along with increasing backward integration into spinning is expected continue to support its growth over the medium term while maintaining healthy margins.

Long-term relationships with reputed clientele – ICIL's major customers include global big-box retailers in the US, Canada and Europe such as Walmart, JC Penney, Kohl's, Costco, Liberty, among others. ICIL differentiates itself from competitors through its track record of superior product quality and timely execution of contracts. The company enjoys established and long-term relationships with its key customers, which is expected to continue to translate into high repeat orders, thereby contributing to revenue visibility and operational stability.

Comfortable capital structure and coverage metrics supported by healthy liquidity position – ICIL's capital structure continues to remain comfortable with a gearing of 0.8 times and 0.6 times as on March 31, 2022 and September 30, 2022, supported by a healthy net worth base of more than Rs. 1,500 crore and healthy cash accruals. While the capitalisation has recorded some moderation owing to the part debt-funded capex being undertaken by the company, ICRA expects the gearing to remain comfortable. ICIL's interest cover declined to 5.6 times in 9M FY2023 from 11.6 times in FY2022 while its net debt/OPBDITA increased to ~1.7 times in H1 FY2023 owing to reduction in the operating margin and muted revenue growth. Nevertheless, the coverage metrics remain healthy and are expected to improve going forward with increase in capacity utilisation and margins.

Extensive experience of promoters – ICIL was incorporated by Mr. Anil Kumar Jain, Executive Director, in 1988, as an export-oriented spinning unit and has expanded over the years to become a full-fledged home textile manufacturer. The company continues to benefit from over three decades of experience of its promoters in the textile business.

Credit challenges

High geographical and customer concentration of revenue – ICIL's sales exhibit high degree of geographic and customer concentration with the US accounting for ~3/4th of its operating income and the top-3 customers accounting for ~39% of revenues in H1 FY2023 (58% in FY2022). While long and established relationships with major customers provide some comfort, loss of any major customer could have a material impact on ICIL's revenue and growth prospects. ICRA notes the company's plans to diversify its revenue by exploring new geographies and expanding its product portfolio, ICIL's ability to broad-base its revenue with focus on the non-US markets remains a key rating sensitivity.

Working capital intensive nature of business, albeit order-backed inventory – ICIL's operations remain working capital intensive due to the need for large stocking of raw materials owing to seasonal availability of cotton. The company's working capital intensity, measured by the net working capital to operating income, increased to 54% in FY2023 due to supply chain disruptions. ICRA expects some moderation in the metric but it is likely to remain above 45%. While the high inventory levels impact the company's return metrics and liquidity, the risks are mitigated to an extent by order-backed inventory.

Vulnerability of revenues and earnings to volatility in raw material prices, foreign exchange rates and changes in export incentives offered by the Government; near-term industry headwinds – ICIL's revenue and earnings are exposed to the risks arising from volatility in prices of cotton, yarn and fabric. However, the risk is partly mitigated by order-backed inventory stocking, which minimises raw material and inventory price risks. Being a net exporter, the company is exposed to foreign currency fluctuation risks, which could impact its margins in times of high volatility in exchange rates, as recorded in the past. Nevertheless, the company follows a defined policy of hedging 60-65% of its exposure on a 12-month rolling basis. ICIL's margins are also exposed to the risks of changes in the Government's export incentive scheme. Over the last two years, export incentives accounted for 40-50% of ICIL's operating profits and any reduction could impact the margin profile of the business. However, extension of the current incentive structure till March 2024 provides near-term visibility. The home textile exports industry has been facing demand and cost side headwinds since the last 12 months in the form of steep rise in freight and raw material costs coupled with subdued export demand owing to high inflation in developed countries. While the business environment is expected to improve in FY2024, sustained headwinds could adversely impact ICIL's performance and will continue to be monitored.

Environmental and social risks

Environmental considerations – ICIL's key raw material (cotton) is an agricultural commodity, availability and prices of which are susceptible to agro-climatic risks, which could impact its profitability. Moreover, textile processing is a water-intensive activity, which exposes ICIL's business to risks emanating from unavailability of water in the plant's vicinity. Dyeing of fabric is also a major source of water pollution and its two ancillary activities – spinning and weaving – are sources of noise pollution. These expose ICIL to the tightening of pollution control norms along with operational and financial implications from non-compliance of existing regulations. As per ICIL's annual report for FY2022, the company has taken numerous steps including installation of effluent treatment plant, water recycling facilities and noise cancelling systems to mitigate the risks to an extent.

Social considerations – ICIL is exposed to social risks such as compliance (or the lack of it) with health and safety standards mandated by the Government and various regulatory bodies. Further, it is exposed to the adverse consequences arising from shifting societal trends and consumer preference to sustainable products, which could translate into substantial investments required by the company. As per ICIL's annual report for FY2022, the company focuses on sustainability across the value chain from procurement to packaging, which aid in risk mitigation to an extent.

Liquidity position: Adequate

ICIL's liquidity continues to remain Adequate, characterised by free cash and bank balances worth ~Rs. 45 crore and liquid investments worth ~Rs. 150 crore along with a healthy buffer of ~Rs. 700 crore from unutilised working capital limits (with commensurate drawing power) as on December 31, 2022 (provisional). ICIL is expected to generate cash flow from operations worth Rs. 150-200 crore p.a. over the next two years. Against this, it has debt repayment obligations of Rs. 65-75 crore p.a. The company is likely to incur a capex of ~Rs. 450 crore in FY2023, partly funded by debt of ~Rs. 240 crore. Going forward, ICIL is expected to incur only maintenance capex of ~Rs. 35-40 crore p.a. over the next two years.

Rating sensitivities

Positive factors – ICRA could upgrade ICIL's ratings in case of a substantial and sustained increase in scale of operations coupled with improving diversification of revenue while maintaining a healthy capital structure and comfortable coverage metrics. Specific credit metrics which could result in ratings upgrade include return on capital employed (RoCE) above 25% on a sustained basis.

Negative factors – Pressure on ICIL's ratings could arise in case of a significant decline in revenue and/or profitability, translating into weakening debt protection metrics and liquidity on a sustained basis. Any large unanticipated debt-funded capital expenditure, an increase in working capital cycle, a delay in ramp-up of capacity utilisation and/or loss of a major customer impacting the company's financial risk profile could also put pressure on the ratings. Specific credit metrics which could result in ratings downgrade include net debt/OPBDITA above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ICIL. As on March 31, 2022, the company had five subsidiaries which are all enlisted in Annexure-2

About the company

Indo Count Industries Limited (ICIL) was incorporated in 1988 as a cotton yarn manufacturer and commenced production at its export-oriented spinning unit in 1991 with an installed capacity of ~30,000 spindles. In 2006, ICIL commenced forward integration of its operations by setting up a state-of-the art home textiles manufacturing unit in Kolhapur, Maharashtra with an installed capacity of ~36 million metres per annum. Over the years, the company has transformed itself into one of India's leading suppliers and exporters of bed linen. ICIL is listed on the NSE and BSE.

In April 2022, ICIL completed the acquisition of GHCL's home textile unit with an installed capacity of 45 million metres per annum along with commensurate cut and sew capacity. The company is also undertaking expansion of its existing facilities by 18 million metres per annum, which would increase the total installed capacity to 153 million metres per annum.

Key financial indicators

Indo Count Industries Limited (Consolidated)	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Provisional)
Operating income	2,538	2,943	1,547
PAT	249	359	144
OPBDIT/OI	15.8%	18.7%	15.3%
PAT/OI	9.8%	12.2%	9.3%
Total outside liabilities/Tangible net worth (times)	0.8	1.0	0.9
Total debt/OPBDIT (times)	1.4	2.4	2.1
Interest coverage (times)	14.3	11.6	6.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Feb 16, 2023	Jan 10, 2022	Mar 11, 2021	Dec 11, 2020	Jul 19, 2019
1	**Term loans**	Long-term	358.51	164.41	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	**Cash Credit**	Long-term	1,260.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**Non-fund based limits**	Short-term	137.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
4	**Unallocated Limits**	Long-term/ short-term	7.85	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund based – Cash Credit	Simple
Short term non-fund based limits	Simple
Long-term/short-term – Unallocated Limits	N.A.

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2019	NA	FY2024	13.51	[ICRA]AA-(Stable)
NA	Term Loan-II	FY2023	NA	FY2029	175.00	[ICRA]AA-(Stable)
NA	Term Loan-III	FY2023	NA	FY2026	50.00	[ICRA]AA-(Stable)
NA	Term Loan-IV	FY2022	NA	FY2028	120.00	[ICRA]AA-(Stable)
NA	Cash Credit	NA	NA	NA	1,260.00	[ICRA]AA-(Stable)
NA	Non-fund based limits	NA	NA	NA	137.00	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	7.85	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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	100.00%	Full Consolidation
Indo Count Global Inc.	100.00%	Full Consolidation
Indo Count UK Limited	100.00%	Full Consolidation
Indo Count Global DMCC	100.00%	Full Consolidation

Source: ICIL annual report FY2022
^Amalgamated with Indo Count Industries Limited w.e.f. October 20, 2022

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