January 24, 2022

Texport Industries Private Limited: Ratings upgraded to [ICRA]A- (Stable)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	63.59	45.60	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Stable)
Short term - Fund based	190.80	159.00	[ICRA]A2+; upgraded from [ICRA]A2
Long Term/Short Term – Unallocated	0.00	49.79	[ICRA]A- (Stable)/[ICRA]A2+; upgraded from [ICRA]BBB+(Stable)/[ICRA]A2
Total	**254.39**	**254.39**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade reflects the improvement in the performance of Texport Industries Private Limited (TIPL) in FY2022 and the expected steady performance in the coming quarters on the back of its established market position and long relationship with large international customers. TIPL's recovery was backed by the growth in revenues and earnings in recent quarters, its growing order book and the consequent improvement in the debt-protection metrics and liquidity. Post the pandemic-induced disruptions faced in the beginning of FY2021, TIPL's performance has been driven by the growth in orders from existing large customers and new customers. Thus, post the decline of FY2021, TIPL's revenues are expected to register a growth of more than 20% in FY2022 and around 6-8% over the medium term with the company in the process of expanding its capacities to meet customer requirements. While TIPL's operating margins improved to around 10% in FY2021, supported by cost-reduction measures and better efficiency, they are expected to remain at 8-9% over the medium term till the new capacities stabilise and operate at optimal levels. TIPL's credit metrics and liquidity have improved in the recent past on the back of better earnings which have been utilised to reduce debt and meet the incremental working capital requirements. TIPL's credit metrics, such as the net debt to operating profits and the interest coverage were 2 times and 5 times, respectively, in FY2021. Despite the incremental working capital requirements and the funding required for capacity expansion, the net debt to operating profits and interest coverage are expected to remain comfortable at around 2 times and 5 times, respectively, in FY2022 and FY2023.

The ratings continue to factor in customer and geographical concentration risks, and the exposure to external risks such as foreign exchange rate fluctuations, along with regulations and duty structures across the markets. Besides, the ratings consider the intense competition from other major garment exporting countries that limits pricing flexibility, and the high working capital requirements inherent in the business.

The Stable outlook suggests that TIPL's performance will continue to benefit from the favourable demand conditions, its established market position with a reputed customer base and comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established presence – TIPL is an established manufacturer and exporter of garments, having an operational track record of more than three decades. It is among the large organised exporters of men's wear in India, with sizeable capacities across woven and knitted garments. Further, TIPL's product profile remains diversified across products and end-users. These operational strengths have supported TIPL's revenues over the years despite the customer-specific and industry challenges.

Strong customer base – TIPL exports to large renowned retailers and enjoys long relationship with its customers, as reflected in the recurring orders from its key customers. TIPL's volume offtake has remained steady over the years, except in FY2021 constrained by the pandemic, as its end customers enjoy healthy value share in their respective markets. In addition, an expected shift in sourcing by large retailers from other large competing supplier nations to India and TIPL's product/customer diversification initiatives are likely to support the long-term revenue growth potential of the company.

Comfortable financial profile – TIPL's credit metrics and liquidity have improved in the recent past, driven by the growth in earnings from operations. The same has been utilised to fund repayments and meet working capital requirements, reducing dependence on external debt to an extent as illustrated in the reduction in net debt levels. Given the expected growth in earnings, TIPL's leverage indicators and coverage metrics are likely to remain at comfortable levels over the medium term despite the incremental working capital requirements and the funding required for capacity expansion.

Credit challenges

Moderate concentration risks – TIPL's revenues remain susceptible to business concentration risks as the top five customers continue to contribute to around 80% to the revenues and a major portion of the business is generated from the US market. Thus, the revenues and earnings depend on the performances of its key customers, apart from other factors such as regulations and duty structures across markets. However, the risk is mitigated to an extent by the established relationship with its clientele and the continued steps taken by TIPL to diversify its revenue base (the diversification measures will be supported by the capacity expansion).

Limited pricing flexibility exposes earnings to price risk – TIPL's earnings remain exposed to the fluctuations in raw material prices and exchange rates on the back of intense competition, limiting the pricing flexibility. The company faces competition from other large textile exporters from India as well as from other low-cost garment exporting countries, which limits its ability to improve prices and margins to an extent. Further, with demand improving across product segments in the recent past, TIPL's revenues and earnings are expected to remain steady in the coming quarters.

Liquidity position: Adequate

TIPL's liquidity position is expected to remain comfortable, backed by steady earnings, adequate unutilised lines of credit and liquid investments held. The cash buffer (which includes unutilised working capital facilities and free cash & liquid investments held) was around Rs. 120 crore at the end of November 2021. The average utilisation of the working capital limit was 64% for the 12-month period ended November 2021. The cash buffer and the net cash accruals of around Rs. 50 crore per annum is expected to support TIPL's liquidity profile over the medium term despite the increase in working capital requirements and the proposed outflow towards repayments & capacity expansion of around Rs. 120-130 crore between FY2022 and FY2024.

Rating sensitivities

Positive factors – The ratings may be upgraded if TIPL registers a healthy growth in the scale of operations and improves its profitability, while maintaining comfortable debt protection metrics and liquidity. Specific credit metrics that may lead to rating upgrade include the interest coverage improving to more than 5.5 times on a sustained basis.

Negative factors –The ratings may be downgraded if there is any sustained pressure on earnings or higher-than-anticipated debt-funded capex, which would adversely impact its debt protection metrics and liquidity. Specific credit metrics that may lead to a revision in the rating include the net debt to operating profit deteriorating to above 2.3 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Indian Textiles Industry – Apparels](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile. Details of the entities considered for consolidation have been given in Annexure-1

About the company

TIPL was incorporated in 1978 by Mr. Narendra Goenka and family as a garment manufacturing export house. TIPL primarily exports readymade garments to developed countries, with the US being its largest market. TIPL operates from more than 15 manufacturing facilities and is in the process of expanding its capacity given the healthy demand conditions. The company caters to renowned brands in the American and European markets, serving their requirements across product categories.

Key financial indicators

TIPL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	759.4	595.0
PAT (Rs. crore)	35.5	20.7
OPBDITA/OI (%)	8.2%	9.9%
PAT/OI (%)	4.7%	3.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.0
Total Debt/OPBDITA (times)	3.6	2.7
Interest Coverage (times)	3.7	4.8

Source: TIPL; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated	Amount Outstanding as of November, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019	
					January 24, 2022	October 20, 2020	April 29,2020	April 20,2020	-	March 01, 2019	September 10,2018
1	Fund-Based Limits	Long Term/ Short Term	159.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	[ICRA]A2+	[ICRA]A2+
2	Fund Based – Term Loan	Long Term	45.60	45.60	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	-	[ICRA]A- (Negative)	[ICRA]A- (Negative)
3	Unallocated	Long Term	49.79	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-	-	-

Source: TIPL

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short Term - Fund Based	Very Simple
Long Term - Fund Based TL	Simple
Long Term/Short Term - Unallocated	Not Applicable

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank Name	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Working capital facilities	-	-	-	105.00	[ICRA]A2+
-	Working capital facilities	-	-	-	54.00	[ICRA]A2+
-	Term Loan-I	FY2017	-	FY2026	34.73	[ICRA]A-(Stable)
-	Term Loan-II	FY2014	-	FY2026	6.82	[ICRA]A-(Stable)
-	Term Loans-III	FY2018	-	FY2026	4.05	[ICRA]A-(Stable)
-	Unallocated	-	-	-	49.79	[ICRA]A-(Stable)/[ICRA]A2+

Source: TIPL

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Texport Apparels LLP	-	Full Consolidation

*Full consolidation is done because of the strong operational and management linkages enjoyed by the above-mentioned entity with TIPL

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About ICRA Limited:

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