April 13, 2023

Texport Industries Private Limited: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	45.60	36.32	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Short term - Fund based	159.00	170.00	[ICRA]A1; upgraded from [ICRA]A2+
Long Term/Short Term – Unallocated	49.79	48.07	[ICRA]A (Stable)/[ICRA]A1; upgraded from [ICRA]A- (Stable)/[ICRA]A2+;
Total	**254.39**	**254.39**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade reflects the improvement in the performance of Texport Industries Private Limited (TIPL) in 9M FY2023 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 has registered a healthy growth in revenues and earnings in the recent quarters due to its growing order book from the existing large customers and new customers, which resulted in a consequent improvement in the debt protection metrics and liquidity position. This apart, TIPL's operating margins improved substantially in 9M FY2023 to ~14%, supported by cost-reduction measures and better scale efficiency, increase in revenue mix of high-value products and benefits arising from depreciation of the INR against the USD. ICRA expects the margins to decline a bit 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.

ICRA notes that TIPL is an approved participant under the PLI scheme and has set up a new entity – DGG Export Private Limited (DEPL) for the same. Despite the incremental funding required for capacity expansion for DEPL, the net debt to operating profits and DSCR are expected to remain comfortable at around 1 times and 4.5 times, respectively, in FY2023 and FY2024 at the consolidated level.

The ratings continue to factor in customer and geographical concentration risks, and TIPL's exposure to external risks such as geo-political factors (like recessionary pressure, Russia-Ukraine war etc.) 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 strong order book, its established market position with a reputed customer base and comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established presence as manufacturer and exporter – 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 offerings remain 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 received 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.

Healthy improvement in earnings leading to comfortable coverage indicators – Supported by a strong rebound in demand, TIPL posted an operating profit of ~Rs. 97 crore and ~Rs. 138 crore in FY2022 and 9M FY2023 (estimated) respectively, against ~Rs. 59 crore in FY2021 at the consolidated level. With healthy profitability and limited debt repayment obligations, TIPL's coverage metrics remained strong, as depicted by an estimated interest cover of ~15 times, and DSCR of more than 5 times in FY2023. The liquidity position also remained comfortable, supported by healthy accruals and adequate cushion in the working capital limits. 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 around 70% 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 the markets. ICRA also notes the subdued demand environment for the apparels exports markets in the US, and the EU region (high inflationary pressure, and fallout of the Russia-Ukraine war). 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. However, ICRA notes that the forex risk is mitigated to some extent by the forward cover taken by TIPL and the risk of fluctuations in raw material prices is mitigated through simultaneous booking of raw materials on receipt of export orders. 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: Strong

TIPL's liquidity position is strong, backed by steady earnings, adequate unutilised lines of credit and liquid investments held. The company's liquidity position is comfortable with Rs. 130 crore of liquid investments, Rs. 28 crore of cash and bank balance as on December 31, 2022. This apart, TIPL has average cushion of Rs. 140 crore (~80% of the sanctioned limits) of undrawn working capital limits over the last six-month period ending in January 2023. Despite the projected combined capex of ~Rs.165 crore in FY2023-FY2024, the debt levels are likely to be limited over the medium term given the healthy earnings expected.

Rating sensitivities

Positive factors – The ratings may be upgraded if TIPL registers a sustained growth in the scale of operations and improvement in cash accruals, while maintaining comfortable debt protection metrics and liquidity.

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 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Textile Industry -Apparels](#)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TIPL. Details of the entities considered for consolidation have been enlisted in Annexure-2.

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	FY2021	FY2022
Operating Income (Rs. crore)	564.4	891.3
PAT (Rs. crore)	20.8	53.0
OPBDIT/OI (%)	10.0%	10.3%
PAT/OI (%)	3.5%	5.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.2
Total Debt/OPBDIT (times)	2.7	2.2
Interest Coverage (times)	4.9	6.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 15, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Apr 13, 2023	--	Jan 24, 2022	Oct 20, 2020	Apr 29, 2020 Apr 20, 2020
1	Fund-Based Limits	Short Term	170.00	--	[ICRA]A1	--	[ICRA]A2+	[ICRA]A2	[ICRA]A2
2	Fund Based – Term Loan	Long Term	36.32	33.92	[ICRA]A (Stable)	--	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
3	Unallocated	Long Term/ Short Term	48.07	--	[ICRA]A (Stable)/ [ICRA]A1	--	[ICRA]A- (Stable)/ [ICRA]A2+	--	--

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based TL	Simple
Short term - Fund based	Very 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 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	**Long Term - Fund Based TL**	FY2014-FY2017	NA	FY2026	36.32	[ICRA]A (Stable)
NA	**Short term - Fund based**	NA	NA	NA	170.00	[ICRA]A1
NA	**Long Term/Short Term – Unallocated**	NA	NA	NA	48.07	[ICRA]A (Stable)/[ICRA]A1

Source: *TIPL*

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
Texport Apparels LLP	--	Full consolidation
DGG Export Private Limited	100%	Full consolidation

Source: *TIPL*

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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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