

July 07, 2022^(Revised)

Gaurav International: Ratings upgraded to [ICRA]A-(Stable)/ [ICRA]A2+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	21.77	17.21	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Short-term – Fund based limits	75.00	150.00	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term – Non-fund based limits	20.00	30.00	[ICRA]A2+; Upgraded from [ICRA]A2
Total	116.77	197.21	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of two Group entities of the Richaco Exports Group (referred to as the Group, hereafter), namely Richaco Exports Private Limited (REPL) and Gaurav International (GI), given the close business, financial and managerial linkages among them (refer to the **Analytical Approach** for details).

The ratings upgrade factors in the Group's better-than-expected performance in FY2022 coupled with an improvement in its capitalisation and coverage metrics and liquidity position, and expectation of a steady operational and financial risk profile. Post the pandemic-induced business disruptions faced in FY2021, the Group's performance has recovered steadily, with the turnover breaching the pre-Covid level in FY2022 (estimated; E). The Group is expected to report steady revenue and earnings growth in the medium term, supported by its established track record of operations in the sector, a strong order book position and established relationships with its renowned overseas clientele, which has been providing repeat businesses.

The ratings, however, remain constrained by the vulnerability of the Group's profitability to any adverse change in foreign currency exchange rates and export incentives structure, and high geographical as well as client concentration risks. Further, the Group's operations are working capital intensive, driven by elongated inventory as well as the receivable turnover period. Together with client concentration risk, high receivables expose the Group to counterparty credit risk. This was also seen in the recent years when the pandemic-led pressure on performance of some key clients resulted in stretched receivables as well as bad debts, impacting the Group's profitability. The receivables position has improved significantly in the recent quarters, supporting the Group's liquidity position.

The ratings are also constrained by the intense competition in the industry, which limits the pricing flexibility of industry participants. ICRA also notes the risks inherent in a partnership firm in terms of any significant capital withdrawal, as seen in the past, which together with delays in release of export incentives may impact the Group's liquidity position.

The Stable outlook on the company's long-term rating reflects ICRA's expectation of comfortable capitalisation and debt coverage metrics, supported by steady earnings growth and working capital intensity, limited capex plans and declining repayment obligations.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record of the Group in the garmenting industry – Promoted by the Uppal family in 1977, the Group has an extensive track record of over four decades in the garment manufacturing and exporting industry.

Healthy scale of operations and manufacturing base of the Group – Over the years, the Group has steadily increased its manufacturing capacities and expanded its garment product portfolio in terms of design and fabrics. Thus, the Group benefits from the economies of scale, given its sizeable manufacturing base. The larger entity, REPL, has an annual manufacturing capacity of ~1.4 crore garments, while GI has an annual manufacturing capacity of 0.6 crore pieces.

Established relationships with renowned international brands – The Group derives almost its entire revenues from the export market. Over the years, it has fostered relationships with leading global apparel retailers, establishing relationships with renowned brands like Blue Star Imports, Abercrombie & Fitch and J Crew. The Group's client base has been providing repeat business to the Group on a sustained basis, reflecting favourably on its track record and competitive positioning in the sector.

Healthy improvement in financial risk profile, with a comfortable order book position – Post the pandemic-induced business disruptions in FY2021, the Group has been able to scale up its operations at a healthy pace in FY2022, reporting an estimated YoY revenue growth of ~67%. While the high growth is partly explained by the low base effect, the Group's turnover in FY2022 stood much higher than the pre-Covid level as well. Coupled with cost reduction measures, better efficiency and higher export incentives received pertaining to the previous year, this helped the Group report an all-time high operating margin of ~13-14% in FY2022 (E). Higher profits are estimated to have improved the Group's capitalisation and coverage metrics as well, with Total Debt/ Tangible Net Worth of 1.7 times (1.9 times in FY2021), Total Debt/ OPBDITA of 2.3 times (4.7 times in FY2021) and interest coverage of 6.0 times (4.0 times in FY2021) in FY2022 (E). ICRA also notes the recent improvement in the Group's receivables position and hence the liquidity cushion.

Credit challenges

Working capital intensive nature of operations – The Group's operations are working capital intensive, as indicated by the average gross working capital cycle (debtors + inventory holding) of over 100 days during FY2017-FY2020. The working capital intensity increased further in the last two fiscals (gross working capital cycle of over 160 days) following high credit period allowed to the customers due to the Covid-19 induced stretch in the liquidity position of industry players. Nevertheless, the situation has improved in the current financial year and the receivables position has gone back to normal to a large extent. In addition, the Group's working capital requirements increased in the recent years due to a build-up of the export incentive receivables, following the delay in release by the Government, which affected the Group's liquidity position, in line with the overall industry trends. The sustenance of the normal receivable cycle and timely receipt of export incentives remain crucial for the Group to maintain a comfortable liquidity position.

Vulnerability of profitability to changes in rates of export incentives – Like other apparel exporters, high dependence on export incentives exposes the Group's profitability and competitiveness in the international markets to any adverse change in the export incentive structure. In the recent years, there have been several revisions in the export incentive structure as well as rates, which resulted in lack of clarity while pricing the products. Nevertheless, the Government's last year's announcement regarding the extension of the Rebate of State and Central Taxes and Levies (RoSCTL) benefits for three years till March 31, 2024 provides clarity, supporting the exporters' ability to effectively price their products for the next two years.

Profitability exposed to slowdown in export markets, volatility in raw material prices and exchange rate fluctuations – The Group derives almost its entire revenues from the export market, mainly driven by the US market (~76% of total sales in FY2021), followed by European markets. High reliance on exports with concentrated exposure to the US market exposes the Group's revenue as well as profitability to slowdown in these markets. Besides, the Group has a concentrated client exposure, with its top ten clients accounting for ~78% of the Group's sales in FY2022. Besides exposing it to business risks on account of

pressure on performance of these clients, high client concentration exposes the Group to counterparty credit risk. This was witnessed in FY2020 when distressed financial position of a few customers led to bad debt and weakened the Group's profitability for the year. This is more so considering that adding a new large customer is typically a time-consuming process, with significant compliance requirements. Further, like other apparel exporters, the Group's profitability is susceptible to adverse movement in raw material prices and foreign exchange rates, given its export-driven revenue profile. Any appreciation of the rupee vis-à-vis the dollar could adversely impact the Group's revenues and profitability as well as its competitiveness against other exporting countries. However, partial hedging via forward contracts mitigates the risk to an extent.

Limited bargaining power due to significant competition in garment exports business – The garment export industry is highly fragmented and is characterised by intense competition among exporters from India and other low-cost countries such as Bangladesh, China, Vietnam and Indonesia. The intense competition keeps the pricing power in check, limiting the profitability and the ability of industry participants to pass on the increase in input costs of yarn and fabric.

Liquidity position: Adequate

The Group's liquidity position is expected to remain adequate, backed by steady earnings and adequate unutilised lines of credit. The cushion in sanctioned working capital limits (lower of drawing power and sanctioned limits vis-a-vis the utilisation) stood at around Rs. 105 crore at the end of May 2022. The average cushion in the working capital limit stood at ~Rs. 40.4 crore, equivalent to ~15% of the drawing power, for the 12-month period ended in March 2022. The cushion in working capital limits, expected healthy net cash accruals and the financial flexibility with lenders are expected to support the Group's liquidity profile over the medium term. Limited capex plans and low annual repayment obligations of ~Rs. 14.8 crore in FY2023 vis-a-vis the annual cash accruals also provide comfort.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a healthy and sustained increase in the Group's scale of operations and profits, together with an improvement in its liquidity profile, capital structure and current ratio. Specific credit metrics that may result in ratings upgrade include consolidated Debt/ OPBDITA of less than 2.0 times on a sustained basis.

Negative factors – The ratings could be downgraded if there is a sustained pressure on the Group's sales growth and profitability, or in case of weakening of its liquidity position. Specific credit metrics that could trigger a downgrade include a consolidated interest cover (OPBDITA/ Interest) of less than 4.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry – Apparels Consolidation and Rating Approach
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of two Group entities of the Richaco Exports Group, which are enlisted in Annexure-2, given the close business, financial and managerial linkages among them.

About the company

Gaurav International is a partnership firm involved in manufacturing and export of woven apparels and home furnishing items. The firm has its manufacturing facilities located in Delhi NCR. The company mainly exports to renowned brands/ retailers in the US and Europe, such as Abercrombie & Fitch and Blue Star Imports, among others.

Key financial indicators (audited)

REPL	Consolidated		Standalone	
	FY2020	FY2021	FY2020	FY2021
Operating income	1041.0	762.3	404.1	261.4
PAT	19.9	36.3	5.4	9.8
OPBDIT/OI	4.9%	7.6%	1.3%	5.2%
PAT/OI	1.9%	4.8%	1.3%	3.8%
Total outside liabilities/Tangible net worth (times)	2.8	2.7	3.2	3.4
Total debt/OPBDIT (times)	5.4	4.7	21.2	10.5
Interest coverage (times)	2.6	4.0	0.7	2.3

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 Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Jul 07, 2022	Jul 23, 2021	Apr 27, 2020	-	
1 Fund based-Term loans	Long Term	17.21	17.21	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	-	
2 Fund based-Working Capital Facilities	Short Term	150.00	--	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-	
3 Non-fund based Facilities – LC/BG	Short Term	30.00	--	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-	
4 Unallocated Limits	Long Term/Short-term	--	--	--	-	[ICRA]BBB+ (Negative)/[ICRA]A2	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loans	Simple
Short-term – Fund based limits	Simple
Short-term – Non-fund based limits	Very Simple

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Term loans	FY2016	NA	FY2027	17.21	[ICRA]A-(Stable)
NA	Fund based- Working Capital Facilities	NA	NA	NA	150.00	[ICRA]A2+
NA	Non-fund based Facilities – LC/BG	NA	NA	NA	30.00	[ICRA]A2+

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
Richaco Exports Private Limited	100.00%	Full Consolidation
Gaurav International	100.00%	Full Consolidation

Source: Company and ICRA Research

Note: ICRA has taken a consolidated view of the two Group entities of the Richaco Exports Group.

Corrigendum:

Rationale dated July 07, 2022 has been corrected with revisions as detailed below:

In the key financial indicators table, operating income figures were captured incorrectly. The same has been corrected in the key financial indicators on page number 4.

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