

October 27, 2023

## Richaco Exports Private 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 – Term loans	6.00	6.00	[ICRA]A-(Stable); reaffirmed
Short-term – Fund based limits	165.00	250.00	[ICRA]A2+; reaffirmed/ assigned to enhanced limits
Short-term – Non-fund based limits	20.00	20.00	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>191.00</b>	<b>276.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of two 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 between them (refer to the Analytical Approach section for details).

The ratings reaffirmation factors in the Group's healthy performance for two consecutive years (FY2022 and FY2023), coupled with an improvement in the coverage metrics and the liquidity position, and expectation of a steady operational and financial risk profile. 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, 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. Besides client concentration risk, high receivables expose the Group to the counterparty credit risk.

The ratings are also constrained by 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 FY2023, would 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 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** –The Group has steadily increased its manufacturing capacities and expanded its garment product portfolio in terms of design and fabrics over the years. 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 brands like Belk International, Abercrombie & Fitch and J Crew. The Group's client base has been providing repeat businesses on a sustained basis, reflecting favourably on its track record and competitive positioning in the sector.

**Healthy financial profile in FY2022 and FY2023** – The Group has been able to scale up its operations at a healthy pace in FY2022 and FY2023, reporting a revenue increase of 43% on a CAGR basis in the said years. Besides cost reduction measures and better efficiency, the Group's operating margin improved to ~12.7% in FY2023. Higher profits improved the Group's capitalisation and coverage metrics as well, with Total Debt/ Tangible Net Worth of 2.1 times (3.2 times in FY2022), Total Debt/ OPBDITA of 2.4 times (2.7 times in FY2022) and an interest coverage of 13.0 times (8.4 times in FY2022) in FY2023. ICRA expects the revenue to remain flat in FY2024, while the operating margin would remain in the range of 12-13% (on the back of lower raw material prices and lower realisations). ICRA notes the increase in capital withdrawals at Gaurav International (~Rs. 41.9 crore in FY2023), which impacted the capital structure despite a sharp improvement in profitability.

### 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 three fiscals (gross working capital cycle of over 152 days as on March 31, 2023, which is expected to remain at similar levels in FY2024 as well) following high credit period allowed to the customers. The sustenance of the normal receivable cycle and timely receipt of export incentives remain crucial for the Group to maintain a comfortable liquidity position.

**Vulnerable to volatile raw material prices, demand trends in key export markets, exchange rate fluctuations and changes in export incentive structure** – 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. Nevertheless, the Group faces sales concentration risk as the US region accounted for ~83% of the Group's total sales in FY2023. With a high inventory build-up at the US retailers' level, a key point to monitor would be liquidation of the inventory and order book build-up for the spring/summer 2024 season. This makes the company's performance vulnerable to any adverse demand trend or development that affects consumer spending and preferences in the US markets. Besides, the Group has a concentrated client base, with its top ten clients accounting for ~81% of the Group's sales in FY2023. This exposes the Group to business risks on account of performance pressure on these clients. High client concentration exposes the Group to the counterparty credit risk. Further, 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.

**Seasonality inherent in operations** – As it is involved in apparel manufacturing for summer and spring seasons, the seasonality is inherent in the Group's revenues, with the major part of revenues reported in H2 of every financial year. This exposes the Group to earnings and cash flow volatility during the year.

**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. 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-à-vis the utilisation) stood at around Rs. 103 crore at the end of August 2023. The average cushion in the working capital limit stood at ~Rs. 112 crore, equivalent to ~38% of the drawing power, for the six-month period ended in August 2023. The cushion in working capital limits, expected healthy net cash accruals (estimated at Rs. 90-100 crore for FY2024) 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 obligation of ~Rs. 15.9 crore in FY2024 vis-a-vis the annual cash accruals also provide comfort.

## Rating sensitivities

**Positive factors** – The ratings could 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 and capital structure. 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Textiles Industry – Apparels</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of two entities of the Richaco Exports Group, which are enlisted in Annexure-2, given the close business, financial and managerial linkages between them.

## About the company

Established in 1979, REPL is promoted by Mr. Vijay Uppal and family. The company manufactures and exports woven apparels and operates out of its manufacturing facilities in Delhi and the National Capital Region. The firm mainly exports to renowned brands/retailers in the US and Europe, such as Abercrombie & Fitch and Belk International, among others.

## Key financial indicators

Consolidated	FY2022	FY2023
Operating Income (Rs. crore)	1373.0	1562.2
PAT (Rs. crore)	100.2	130.5
OPBDIT/OI (%)	12.1%	12.7%
PAT/OI (%)	7.3%	8.4%
Total Outside Liabilities/Tangible Net Worth (times)	4.4	2.8
Total Debt/OPBDIT (times)	2.7	2.4
Interest Coverage (times)	8.4	13.0

Source: Group

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: Not applicable

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 27, 2023	Jul 07, 2022	Jul 23, 2021	Apr 27, 2020
1 Term loans	Long Term	6.00	6.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Negative)
2 Fund based limits	Short Term	250.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
3 Non-fund based Facilities	Short Term	20.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4 Unallocated Limits	Long Term/Short-term	--	--	--	--	--	[ICRA]BBB+(Negative)/[ICRA]A2

### Complexity level of the rated instrument

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: [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 – Term loans	FY2015	NA	FY2027	6.00	[ICRA]A- (Stable)
NA	Short-term – Fund based limits	NA	NA	NA	250.00	[ICRA]A2+
NA	Short-term – Non-fund based limits	NA	NA	NA	20.00	[ICRA]A2+

Source: Group

[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
<b>Richaco Exports Private Limited</b>	100.00%	Full Consolidation
<b>Gaurav International</b>	100.00%	Full Consolidation

Source: Group

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

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Kaushik Das**

+91 33 7150 1104

[kaushikd@icraindia.com](mailto:kaushikd@icraindia.com)

**Sahil Udani**

+91 22 6114 3429

[sahil.udani@icraindia.com](mailto:sahil.udani@icraindia.com)

**G S Ramakrishnan**

+91 44 4596 4300

[g.ramakrishnan@icraindia.com](mailto:g.ramakrishnan@icraindia.com)

**Geetika Mamtani**

+91 22 61693330

[geetika.mamtani@icraindia.com](mailto:geetika.mamtani@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



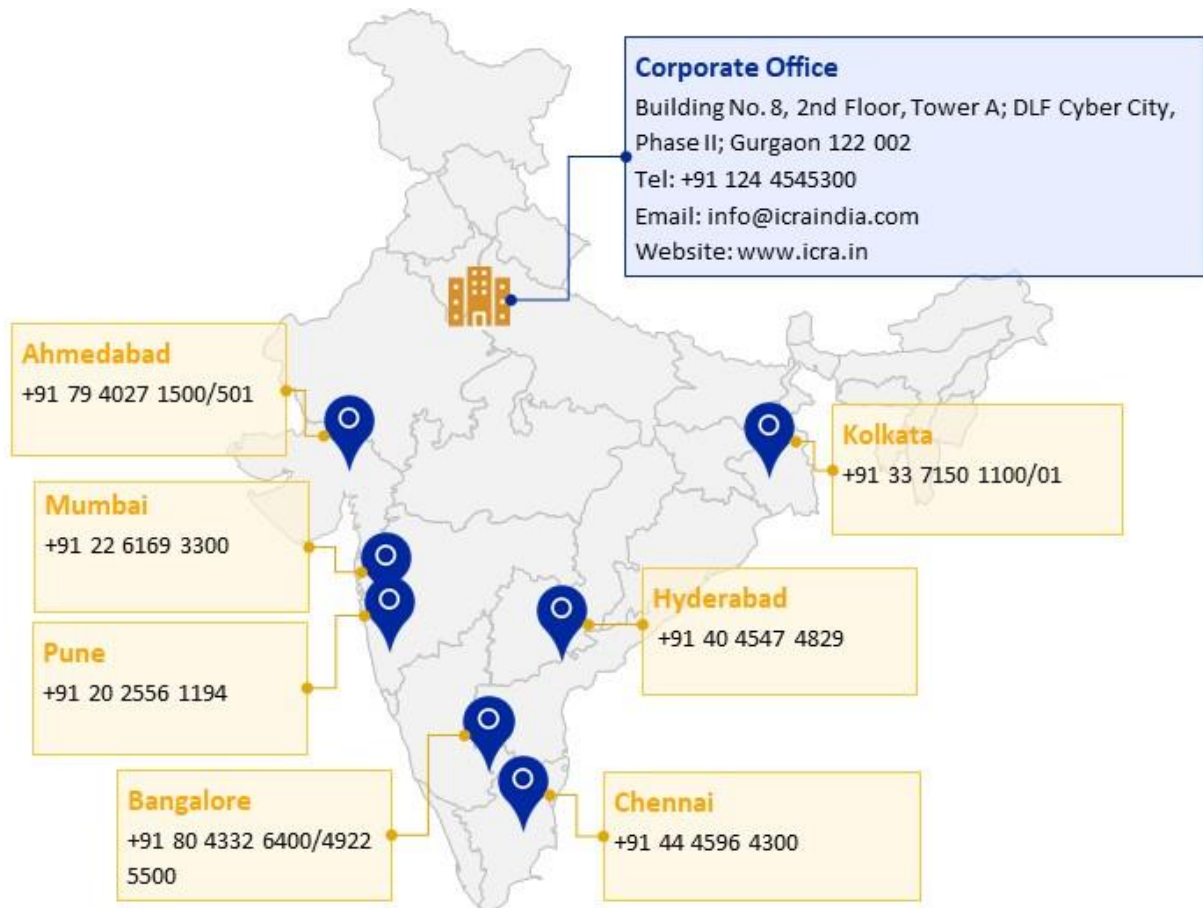
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.