October 27, 2023

Gaurav International: Ratings reaffirmed

Summary of rating action

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

**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	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry – Apparels
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

Gaurav International is a partnership firm involved in manufacturing and export of woven apparels and home furnishing items. The firm's manufacturing facilities are in Delhi NCR. The firm mainly exports to renowned brands/ retailers in the US and Europe, such as Premium Brands and Blue Star Imports, 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	Current rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	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	17.21	17.21	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
2	Fund based limits	Short Term	150.00	--	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2	[ICRA]A2
3	Non-fund based Facilities	Short Term	30.00	--	**[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	FY2016	NA	FY2027	17.21	[ICRA]A- (Stable)
NA	Short-term – Fund based limits	NA	NA	NA	150.00	[ICRA]A2+
NA	Short-term – Non-fund based limits	NA	NA	NA	30.00	[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
Richaco Exports Private Limited	100.00%	Full Consolidation
Gaurav International	100.00%	Full Consolidation

Source: Group

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

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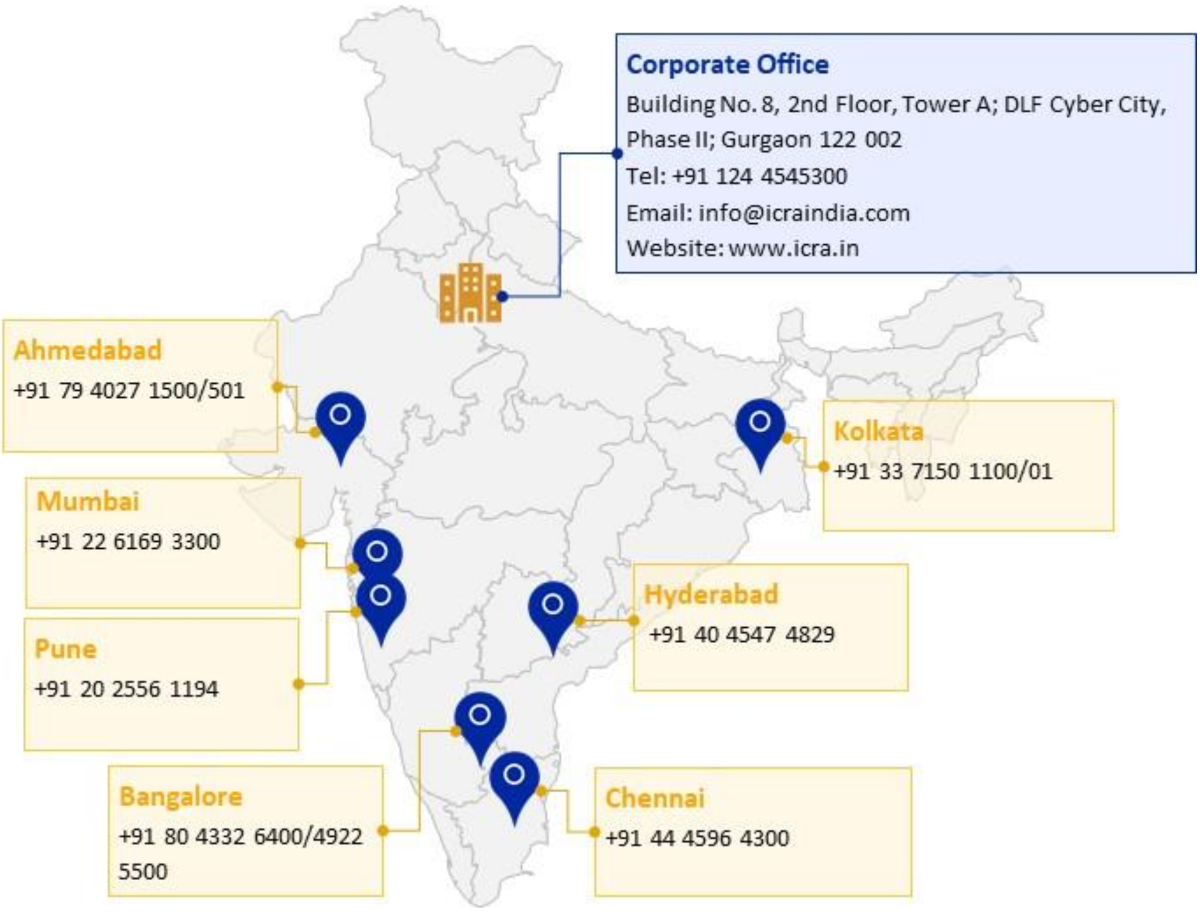

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