October 27, 2023

Richa Global Exports Private Limited: Long-term rating reaffirmed; short-term rating upgraded to [ICRA]A1; Outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	47.57	47.57	[ICRA]A- (Positive); reaffirmed; Outlook revised to Positive from Stable
Short-term – Fund based limits	260.00	400.00	[ICRA]A1; upgraded from [ICRA]A2+/ assigned to enhanced limits
Short-term – Non-fund based limits	20.00	20.00	[ICRA]A1; upgraded from [ICRA]A2+
Total	**327.57**	**467.57**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of two Group entities of the Richa Global Group (referred to as the Group, hereafter), namely Richa Global Exports Private Limited (RGEPL) and ABC Leathers (ABCL), given the close business, financial and managerial linkages between them (refer to the Analytical Approach for details).

The upgrade in the short-term rating and revision in the outlook of the long-term rating to Positive, factor in the Group's better-than-expected performance in FY2023 and an improvement in its capitalisation and coverage metrics, liquidity position, and the expectation of maintaining strong operational and financial performance in FY2024. 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 the foreign currency exchange rates and export incentive 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 the counterparty credit risk.

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) may impact the Group's liquidity position.

The Positive 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, RGEPL, has an annual manufacturing capacity of ~3.3 crore garments.

Established relationships with renowned international brands – The Group derives almost its entire revenues from the export market. Over the years, it has established relationships with renowned global apparel brands like Marks & Spencer, Premium Brands and J. Crew. The Group's client base has been providing repeat business on a sustained basis, reflecting favourably on its track record and competitive positioning in the sector.

Healthy financial profile in FY2022 and FY2023, expected to improve in FY2024 – The Group has been able to scale up its operations at a healthy pace in FY2022 and FY2023, reporting a revenue increase at a CAGR of 43% in the said years. Along with cost reduction measures and better efficiency, the Group reported an all-time high operating margin of ~12.7% in FY2023. Higher profits improved the Group's capitalisation and coverage metrics as well, with Total Debt/ Tangible Net Worth of 0.8 times (1.2 times in FY2022), Total Debt/ OPBDITA of 1.8 times (2.7 times in FY2022) and interest coverage of 8.7 times (7.2 times in FY2022) in FY2023. In FY2024, the gearing (Total Debt/ Tangible Net Worth) is estimated to improve to 0.6-0.7 times with steady accruals. The interest cover for the Group is also projected to remain at a healthy level above 8 times in FY2024.

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 110 days in FY2023. 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 concentration risk with its sales, which are primarily concentrated in the US region (accounted for ~96% of the Group's total sales in FY2023). With a high inventory buildup at the US retailers' level, a key point to monitor would be the 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 exposure, with its top ten clients accounting for ~82% of the total sales in FY2023. Besides exposing it to business risks on account of performance pressure of these clients, high client concentration exposes the Group to the counterparty credit risk. Further, like other apparel exporters, high dependence on export incentives (ICRA notes that the reliance on incentives has decreased to ~48% of the operating profit in FY2023 from ~78% in FY2018) 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 the Group is involved in apparel manufacturing for summer and spring seasons, the seasonality is inherent in its 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: Strong

The Group's liquidity position is expected to be strong, 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. 178 crore at the end of August 2023. The average cushion in the working capital limit stood at ~Rs. 157 crore, equivalent to ~49% of the drawing power, for the six-month period ended in August 2023. The cushion in the working capital limits, expected healthy net cash accruals and 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. 15.3 crore in FY2024 vis-a-vis the annual cash accruals (of ~Rs. 168 crore) 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 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 ratings 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 Group entities of the Richa Global Group, which are enlisted in Annexure-II below, given the close business, financial and managerial linkages between them.

About the company

Incorporated in 2005, RGEPL is promoted by the Uppal family. The company commenced operations in July 2007 following merger of two group partnership firms, Richa Knitwears and Richa Global. It manufactures knitted garments and primarily exports to established brands like Marks & Spencer, Premium Brands and J. Crew, mainly in the US markets.

Key financial indicators

Consolidated	FY2022	FY2023
Operating Income (Rs. crore)	1654.1	2021.4
PAT (Rs. crore)	110.4	139.9
OPBDIT/OI (%)	11.4%	12.5%
PAT/OI (%)	6.7%	6.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.3
Total Debt/OPBDIT (times)	2.7	1.8
Interest Coverage (times)	7.2	8.7

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	47.57	45.45	**[ICRA]A- (Positive)**	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
2	Fund based limits	Short Term	400.00	--	**[ICRA]A1**	[ICRA]A2+	[ICRA]A2	[ICRA]A2
3	Non-fund based Facilities	Short Term	20.00	--	**[ICRA]A1**	[ICRA]A2+	[ICRA]A2	[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	47.57	[ICRA]A- (Positive)
NA	Short-term – Fund based limits	NA	NA	NA	400.00	[ICRA]A1
NA	Short-term – Non-fund based limits	NA	NA	NA	20.00	[ICRA]A1

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
Richa Global Exports Private Limited	100.00%	Full Consolidation
ABC Leathers	100.00%	Full Consolidation

Source: Group

Note: ICRA has taken a consolidated view of the two Group entities of the Richa Global Group.

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About ICRA Limited:

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