September 30, 2024

FA Home and Apparel Private Limited: [ICRA]BBB+(Stable)/[ICRA]A2; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund- based	116.00	[ICRA]A2; assigned
Long-term Fund-Based Term Loans	44.00	[ICRA]BBB+ (Stable); assigned
Long-term/Short term unallocated	20.00	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Total	**180.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings factor in the extensive experience of the promoters and established track record of FA Home and Apparel Private Limited (FAH) in the textile industry and its established relationships with customers, resulting in a healthy increase in revenues over the years. The operating margins have also remained healthy, resulting in satisfactory cash accruals. The company has a healthy financial risk profile, as reflected by low gearing, comfortable debt coverage indicators and adequate liquidity position. The financial risk profile is expected to remain satisfactory over the medium term, backed by consistent generation of accruals and low reliance on external debt.

These strengths are partially offset by FAH's exposure to geographical and customer concentration risks as more than 90% of revenues are generated from the US, with the top-5 customers accounting for around 80% of FAH's revenues over the years. Moreover, the company's profitability is exposed to volatility in foreign exchange rates and raw material prices. The ratings also continue to factor in the modest net worth base of the company, mainly impacted by capital withdrawals and part-conversion to unsecured loans, undertaken in the past. Nonetheless, Rs. 80 crore of unsecured loans are to be retained in the business, as per the bank's stipulated conditions. FAH's competitiveness and profitability remain vulnerable to changes in export incentives offered by the Government. Intense competition in the textile export industry from other domestic players as well as other low-cost textile exporting countries also limits the company's pricing power. The demand for the company's products remains susceptible to changing trends in the fashion industry besides dependence on consumer tastes and economic cycles of the destination countries. The operations of the company are also working capital intensive in nature due to high receivable and inventory holding period.

The Stable outlook reflects ICRA's expectation of a sustained comfortable revenue growth, which together with improving utilisation of enhanced capacities, is likely to lend adequate support to FAH's financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters with established track record in textiles industry – The promoters of FAH, Ms. Chandrika Thatai and her family members have extensive experience of over two decades in the textile sector. This has resulted in healthy growth in scale over the years.

Established relationships with leading customers with global presence – FAH manufactures home textiles products and apparels for major global players in the export market. Major customers include William Sonoma PTE Ltd., J Crew Group among others.

Comfortable debt coverage metrics and healthy improvement in revenues over the years – Lower reliance on debt coupled with healthy profitability over the years resulted in comfortable debt coverage metrics for FAH. The company reported an interest coverage of 16.2 times and net cash accruals vis-à-vis the total debt of 32% in FY2024. Moreover, revenues have increased at a compounded annual growth rate of 36% over the last four years, led by FAH's foray into the apparel division and its established relationships with customers. The revenues witnessed a YoY decline of 7% in FY2024 due to lower discretionary spend in the US market, impacting the demand for the home furnishings segment. Nonetheless, the demand conditions have improved in the current fiscal, with the company estimated to report a healthy 10-12% growth in FY2025. ICRA, however, notes the modest net worth base of the company, mainly impacted by capital withdrawals and part-conversion to unsecured loans undertaken in the past. Nonetheless, Rs. 80 crore of unsecured loans are to be retained in the business, as per the bank's stipulated conditions.

Credit challenges

Exposure to customer and geographical concentration risks – The company is exposed to high customer concentration risk, with the top two customers accounting for more than 60% of revenues in FY2024. Besides, more than 90% of revenues are derived from the US market, depicting geographical concentration risk. Any change in regulations of importing countries can impact the company's revenues.

Working capital intensive nature of operations – The operations of FAH are working capital intensive in nature due to high receivable period and inventory holding period. The company generally maintains an inventory for 25-40 days, mostly backed by orders. The company provides credit of 45-60 days to customers and gets 30-45 days of credit from suppliers.

Exposed to volatile raw material prices, demand trends and stiff competition in key export markets, forex rates and changes in export incentive structure- – FAH's profitability is vulnerable to volatility in raw material prices, as there is a lag between order booking and deliveries. As FAH derives almost the entire of its revenues from exports with limited dependence on imported raw materials, its profitability is exposed to fluctuations in forex rates. However, the company's demonstrated track record of maintaining healthy profitability during the last few years, despite volatilities in raw material prices, provides comfort. Further, KIL's policy of hedging partial forex exposure partially mitigates the forex risk. Moreover, like other textile exporters, FAH's profitability is supported by export incentives. This exposes the exporters' profitability to any adverse change in the policies. FAH faces intense competition in the garment and home textile export industry from other domestic players as well as companies from other low-cost textile exporting countries, which limits the pricing power.

Liquidity position: Adequate

FAH's liquidity position is adequate, corroborated by an average utilisation of 43% of its fund-based working capital limits in the past 12 months. FAH has repayment obligation of Rs. 8.08 crore in FY2025, however, ICRA expects the company's fund flow from operations to be adequate to fund its debt repayments as well as the margin money requirements for its working capital. The company has no major capital expenditure plans.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if FAH demonstrates a sustained healthy improvement in its scale and net worth position, while sustaining healthy profit margins and effectively managing its working capital cycle.

Negative factors – The ratings may be downgraded if pressure on revenues and profitability, and/or a stretch in the working capital cycle or large debt-funded capex results in weakening of debt coverage metrics. A sustained weakening in the ratio of total debt to operating profits to more than 2.5 times on a sustained basis would be a negative ratings trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles-Apparels
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the company.

About the company

FAH was incorporated in 2000 as a partnership firm by Ms. Chandrika Thatai. It is engaged in manufacturing and export of home textiles, accessories and apparels. The company over the years has developed its business as well as its presence across international markets including the US, the UK and Europe. It was converted into a private limited company on July 24, 2023.

Key financial indicators

FAH	FY2023	FY2024 (Provisional)
Operating income	859.7	799.6
PAT	75.4	76.9
OPBDIT/OI	14.8%	15.4%
PAT/OI	8.8%	9.6%
Total outside liabilities/Tangible net worth (times)	61.1	5.8
Total debt/OPBDIT (times)	1.9	2.2
Interest coverage (times)	17.7	16.2

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 (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				September 30,2024	-	-	-	-
1	Fund-Based Packing credit	Short- Term	116.00	**[ICRA]A2**	-	-	-	-
2	Fund-Based Term Loans	Long Term	44.00	**[ICRA]BBB+ (Stable)**	-	-	-	-
3	Unallocated	Long Term/short term	20.00	**[ICRA]BBB+ (Stable)/[ICRA]A2**	-	-	-	-

**sub-limit of cash credit; ^interchangeable*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Fund-Based	Simple
Long-term Fund-Based Term Loans	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	Short term Fund-Based	NA	NA	NA	116.00	[ICRA]A2
NA	Long-term Fund-Based Term Loans	FY2024	NA	FY2029	44.00	[ICRA]BBB+ (Stable)
NA	Long-term/short term Unallocated	NA	NA	NA	20.00	[ICRA]BBB+ (Stable)/[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 - **Not applicable**

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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.

For more information, visit www.icra.in

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