

December 20, 2024

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	2.85	[ICRA]A- (Stable); reaffirmed
Short-term – Fund based limits	150.00	50.00	[ICRA]A2+; reaffirmed
Short-term – Non-fund based limits	30.00	30.00	[ICRA]A2+; reaffirmed
Total	197.21	82.85	

*Instrument details are provided in Annexure-I

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 on the bank lines of the Group considers its steady performance in FY2024 and the expected improvement in its operational and financial performances over the medium term, supported by its established track record, its strong order book position and established relationships with its renowned overseas clientele, which has been providing repeat businesses. While its revenues grew by 3.5% (on a YoY basis) to Rs. 1,617.4 crore in FY2024, its operating margins moderated by ~140 bps to 11.4% due to an increase in labour costs. Despite some moderation, its interest coverage ratio and debt service coverage ratio stood healthy at 6.8 times and 4.0 times, respectively, in FY2024. Lower dividend payout of Rs. 2.7 crore in FY2024 compared to Rs. 41.9 crore in FY2023 supported an increase in retained earnings, leading to an improvement in its leverage indicators. ICRA notes that the interest-free unsecured loans from the promoter had reduced to Rs. 22.1 crore as of March 31, 2024 from Rs. 72.4 crore as of March 31, 2023. Further, the Group is gradually transferring its business to REPL from GI. Post transfer, GI will continue to hold its assets, but the same will be leased to REPL. The entire shifting of operations is expected to be completed by H1 FY2026.

The ratings, however, remain constrained by the vulnerability of the Group's profitability to any adverse change in the foreign currency exchange rates, 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. 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 that would impact the Group's liquidity position.

The Stable outlook reflects ICRA's expectation that the Group's credit profile will remain supported by its stable revenue growth, which together with limited debt-funded capex plans and declining repayment obligation, is likely to lead to a gradual improvement in its return, capitalisation and coverage metrics.

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 ~1.5 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 – The Group has been able to scale up its operations at a healthy pace over the last three fiscals (FY2022-FY2024), reporting a revenue increase of 28% on a CAGR basis in the said years. Further, due to lower dividend payout and repayment of loans availed from promoters in FY2024, the Group's capitalisation metrics have improved as on March 31, 2024, with Total Debt/ Tangible Net Worth of 1.2 times (2.1 times as on March 31, 2023) and Total Debt/ OPBDITA of 2.3 times (2.4 times as on March 31, 2023). Despite some moderation in profitability, the Group's coverage indicators remained healthy with an interest cover of 6.8 times and DSCR of 4.0 times as on March 31, 2024. ICRA expects the Group to register a healthy revenue growth in FY2025, backed by strong order book position in H2 and its operating margins are likely to remain in the range of 10.5-11.5%.

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 over the last four fiscals (gross working capital cycle in the range of 140-150 days, which is expected to remain at similar levels, going forward) 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. This apart, the Group faces sales concentration risk as the US region accounted for ~81% of the Group's total sales in FY2024. 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 ~69% of the Group's sales in FY2024. 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 a major part of its 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 line of credit and no major debt-funded capital expansion plans. The cushion in sanctioned working capital limits stood at around Rs. 130 crore at the end of October 2024. The average cushion in the working capital limit stood at ~27% of the drawing power, for the 12-month period ended in October 2024. ICRA notes that with effect from November 2024, the sanctioned limits for the Group have enhanced by Rs. 150 crore. Further, expected healthy net cash accruals (estimated at Rs. 130-140 crore for FY2025) vis-a-vis repayment obligation of ~Rs. 32 crore (including Rs. 20 crore towards promoter loan) in FY2025 is expected to support the Group’s liquidity profile over the medium term.

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 metric 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 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 Textiles - 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 Richaco Exports Group, which are enlisted in Annexure II, 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 and knitted apparels as well as 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. GI’s business is gradually being transferred to REPL. GI will continue to hold its assets, but the same will be leased to REPL. The entire shifting of operations is expected to be completed by H1 FY2026.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	1,562.2	1,617.4	792.8
PAT	130.5	112.7	45.2
OPBDIT/OI	12.9%	11.4%	8.6%
PAT/OI	8.4%	7.0%	5.7%
Total outside liabilities/Tangible net worth (times)	2.8	1.8	-
Total debt/OPBDIT (times)	2.4	2.3	-
Interest coverage (times)	10.2	6.8	4.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Provisional numbers; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			Dec 20, 2024	Oct 27, 2023	Jul 07, 2022	Jul 23, 2021	
1 Term loans	Long Term	2.85	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	
2 Fund based limits	Short Term	50.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	
3 Non-fund based limits	Short Term	30.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[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: [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	2.85	[ICRA]A-(Stable)
NA	Short-term – Fund based limits	NA	NA	NA	50.00	[ICRA]A2+
NA	Short-term – Non-fund based limits	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

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