December 20, 2024

# ABC Leathers: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Short-term – Fund based limits** | 15.00 | 15.00 | [ICRA]A1; reaffirmed |
| **Short-term – Non-fund based limits** | 5.00 | 5.00 | [ICRA]A1; reaffirmed |
| **Short-term – Unallocated limits** | 2.50 | 0.00 | - |
| **Total** | **22.50** | **20.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

For arriving at the rating, 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 rating reaffirmation on the bank lines of the Group considers an expected improvement in its operational and financial performances over a 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 declined by 11% (on a YoY basis) to Rs. 1,792.3 crore in FY2024, it recovered subsequently in 5M FY2025, registering revenues of Rs. 917 crore. Further, it has a healthy order book, which is likely to support a healthy revenue growth in FY2025. The Group's operating margins moderated by 260 bps to 9.9% in FY2024 due to an increase in labour costs and one-time provisioning for doubtful debt of Rs. 13.3 crore. Nevertheless, its operating margins improved to 11.4% in 5M FY2025 due to an increase in realisation and benefits arising from the economies of scale. The same is likely to sustain for the remainder of the year. Owing to a drop in profitability in FY2024, the coverage indicators moderated. The interest coverage ratio and debt service coverage ratios moderated to 6.2 times and 2.7 times, respectively, although the same remained healthy.

The rating, however, remains 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 rating 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 the past), which may impact the Group's liquidity position.

## 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 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, Belk 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** – 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. While the growth remained healthy in FY2022 and FY2023, there was a moderation in FY2024 due to spillover of deliveries on certain orders to the next fiscal. The Group's capitalisation and coverage metrics remained healthy as on March 31, 2024, with Total Debt/ Tangible Net Worth of 0.9 times (0.8 times as on March 31, 2023), Total Debt/ OPBDITA of 3.2 times (1.8 times as on March 31, 2023) and interest coverage of 6.2 times (8.7 times as on March 31, 2023). While the coverage indicators moderated in FY2024, the same remained healthy. Further, with an expected improvement in the overall performance in FY2025, supported by its healthy order book position and steady accruals, interest cover for the Group is also projected to improve and remain healthy.

## 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 166 days as on March 31, 2024. The sustenance of 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 primarily take place in the US region (accounted for ~76% 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 is exposed to client concentration risk, with its top ten clients accounting for ~82% of the total sales in FY2024. Apart from business risks on account of performance pressure of these clients, high client concentration exposes the Group to the counterparty credit risk. 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.

**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.

**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 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.

## Liquidity position: Strong

The Group's liquidity position is expected to remain strong, backed by steady earnings and adequate unutilised lines of credit. The average working capital utilisation over the last 12 months ending in October 2024 stood at ~78% of the sanctioned limits. Further, the cushion on working capital limits stood at around Rs. 76 crore at the end of October 2024 and the Group's limits were enhanced by Rs.118 crore in December 2024. Expected healthy net cash accruals, limited debt-funded capex plans and low repayment obligations of ~Rs. 19 crore in FY2025 also provide comfort.

## Rating sensitivities

**Positive factors –** The rating 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 a rating upgrade include consolidated Debt/ OPBDITA of less than 2.0 times on a sustained basis.

**Negative factors –** The rating 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 metric that could trigger a rating downgrade includes 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<br>Textiles - Apparels |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the rating, ICRA has taken a consolidated view of two Group entities of the Richa Global Group, which are enlisted in Annexure II, given the close business, financial and managerial linkages between them. |

## About the company

Established in 1999, ABCL is a partnership firm, which manufactures and exports leather garments. It operates from its manufacturing facilities in the Delhi National Capital Region. The firm mainly exports to renowned brands/marketers in the US and Europe, which include Hugo Boss AG and Michael Kors Co.

### Key financial indicators (audited)

| Consolidated | FY2023 | FY2024 | 5M FY2025* |
|---|---|---|---|
| **Operating income** | 2,021.4 | 1,792.3 | 917.3 |
| **PAT** | 139.9 | 94.4 | 60.4 |
| **OPBDIT/OI** | 12.5% | 9.9% | 11.4% |
| **PAT/OI** | 6.9% | 5.3% | 6.6% |
| **Total outside liabilities/Tangible net worth (times)** | 1.3 | 1.3 | - |
| **Total debt/OPBDIT (times)** | 1.8 | 3.2 | - |
| **Interest coverage (times)** | 8.7 | 6.2 | 9.8 |

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

*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 | | 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 |
| | | | | Dec 20, 2024 | Oct 27, 2023 | Jul 07, 2022 | Jul 23, 2021 |
| 1 | **Fund based limits** | Short-term | 15.00 | [ICRA]A1 | [ICRA]A1 | [ICRA]A2+ | [ICRA]A2 |
| 2 | **Non-fund based limits** | Short Term | 5.00 | [ICRA]A1 | [ICRA]A1 | [ICRA]A2+ | [ICRA]A2 |
| 3 | **Unallocated limits** | Short Term | 0.00 | - | [ICRA]A1 | [ICRA]A2+ | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **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** | **Short-term – Fund based limits** | NA | NA | NA | 15.00 | [ICRA]A1 |
| **NA** | **Short-term – Non-fund based limits** | NA | NA | NA | 5.00 | [ICRA]A1 |

*Source: Company*

## 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: Company and ICRA Research*

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

## ANALYST CONTACTS


**Shamsher Dewan**
+91 124 4545328
shamsherd@icraindia.com

**Srikumar K**
+91 44 4596 4318
ksrikumar@icraindia.com

**Ramakrishnan G S**
+91 44 4596 4300
g.ramakrishnan@icraindia.com

**Geetika Mamtani**
+91 22 6169 3330
geetika.mamtani@icraindia.com


## RELATIONSHIP CONTACT


**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## HELPLINE FOR BUSINESS QUERIES

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

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.

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## ICRA Limited

### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches