

December 30, 2024

Orbit Exports Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Term Loans	35.50	35.50	[ICRA]A (Stable); reaffirmed
Long-term / Short-term Fund-based Limits	30.00	30.00	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	65.50	65.50	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Orbit Exports Limited’s (OEL) factors in the extensive experience of the promoters in the textile industry and the company’s established position in the niche value-added fabrics and made-ups. The ratings also factor in the strong financial profile of OEL, marked by low gearing and healthy debt coverage indicators, as well as a healthy liquidity position.

The ratings, however, remain constrained by OEL’s moderate scale of operations as well as its working capital nature of operations, as reflected by the net working capital vis-à-vis the operating income of 39% as on September 30, 2024, primarily due to its high inventory holding period. However, ICRA notes that the working capital intensity is higher during H1 of any fiscal year prior to the onset of the festive season. The company’s profitability also remains susceptible to the foreign exchange rate fluctuation risks due to its export-dominated revenue profile, though hedging via forward contracts mitigates the risk to a large extent. The company’s revenues and profitability are also exposed to global textile demand conditions and volatility in raw material prices.

The Stable outlook on the [ICRA]A rating reflects ICRA’s opinion that OEL’s credit profile is expected to remain comfortable, supported by its established presence in the niche value-added textiles segment and increasing focus on the domestic markets. The financial profile will continue to remain strong with modest debt repayment obligations and sizeable cash and bank balances, despite OEL’s capital expenditure plans.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the textile industry – OEL was promoted as a private limited company in 1983 by Ms. Shailaja Asave and Mr. Shyamsunder Seth for fabric manufacturing. In 1994, the company was converted into a public limited concern. It is currently headed by Mr. Pankaj Seth and Ms. Anisha Seth, who acquired the company in 2004. The management has an experience of more than two decades in manufacturing and around three decades in exporting fabrics, which enabled the company to establish itself in the domestic as well as international markets.

Healthy profitability indicators, marked by high contribution from value-added products – OEL manufactures customised textiles that find application in high fashion garments, home furnishings, bridal wear and various festive fabrics, which are primarily high value-added products. This enables the company to charge a premium for its products. Further, a high proportion of sales is derived from in-house fabric manufacturing. These, along with the management’s focus on high-margin commodities have enabled the company to report a healthy OPM in the range of 25-30% during the last five years (except in

FY2021 when the OPM moderated to 18% due to the adverse impact of the pandemic). Given the company's continued focus on the niche high value-added textiles segment, the OPMs are likely to sustain in the range of 26-27% in FY2025-FY2026.

Strong financial profile – OEL's financial profile is strong, marked by a low gearing of 0.1 times as on March 31, 2024 due to a healthy net worth position and limited reliance on debt. Its debt coverage indicators are robust, as reflected by an interest cover of 18.5 times (compared to 16.3 times in FY2023) and total debt vis-à-vis the operating profit of 0.4 times in FY2024 (compared to 0.6 times in FY2023). Thus, the overall financial profile is comfortable. OEL's dependence on debt has remained negligible in the last two fiscals, driven by healthy cash flows and modest debt repayment obligations. Its liquidity position is also strong with cash and liquid investments of Rs. 53 crore and unutilised fund-based limits of Rs. 24.5 crore as on September 30, 2024.

Credit challenges

Moderate scale of operations, demand headwinds in export markets – The scale of operations of the company is modest with revenues of Rs. 201 crore in FY2024. While Indian apparel exports grew by 6% on a YoY basis during April-July 2024 following liquidation of inventory at the retailers' level and benefits from China plus One strategy, challenges continue to prevail amid inflationary pressure and tepid economic growth in key markets. This may exert some pressure on the company's exports in the current fiscal and constrain its modest, albeit improving, scale of operations. ICRA, however, draws comfort from the established position of the company in the niche and high value-added segments and increasing presence of the company's products in the domestic market and steady demand from the US and the Middle East markets.

Working capital intensive nature of operations – The company's working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income, remained high at 39% as on September 30, 2024. This was primarily on account of its high inventory holding period. As the company manufactures various fabrics as per customer specifications and production is carried out in batches, it has a high finished inventory, resulting in increased working capital requirement. Also, as OEL routes a portion of its sales through Group companies (based out of the US and the UAE), where the credit period offered is higher, there is an elongation in the receivable cycle. However, ICRA notes that there are no delays in realisation of receivables from the Group companies. Going forward, timely liquidation of inventory remains critical from the credit perspective.

Vulnerability of profitability to global textile demand conditions, volatility in foreign currency exchange rates and raw material prices; intense competition in the industry – OEL's profitability remains susceptible to adverse movements in foreign exchange rates as 60-70% of the revenues are derived from exports. However, the company has a hedging mechanism in place against foreign exchange fluctuations, which provides comfort to a certain extent. OEL's revenues and profitability also remain susceptible to the cyclical nature in the global textile industry and volatility in raw material prices. The textile industry is very competitive due to the fragmented nature of the market and low entry barriers. OEL mostly faces competition from international players. However, focus on a niche product segment has helped it partly mitigate the intense competition in the industry and pass on the raw material price hikes to its customers, supporting its profitability.

Environmental and Social Risks

Environmental risks: The apparel industry is exposed to environmental risks, primarily through water, land use, impact of climate on production and post-consumer waste. While these risks have not resulted in material implications so far, policy actions towards waste management and the environmental impact such as to recycle the textile, could have cost implications for the companies. These apart, dyeing and processing of fabrics cause water pollution and result in significant generation of wastewater. OEL has implemented water treatment facilities at two of its manufacturing plants that enabled recycling of water, resulting in a reduction in water wastage. Nonetheless, any disruption in measures taken for appropriate treatment of wastewater/effluents could result in significant penalties, while also causing prolonged adverse impact to operations if the authorities take any strict action.

Social risks: Being a labour-intensive segment, the entities operating in the garment sector are exposed to the risk of disruption due to inability to properly manage human capital in terms of their safety and the overall well-being. Measures taken by the company towards employee welfare have, however, resulted in no adverse impact on the company’s performance from the above-mentioned risks till date. Further, textile exporters are exposed to the risks of protests/conflicts with local communities. Besides, shortage of skilled workers could also affect operations/growth plans and remains key concerns. Entities also remain exposed to any major shift in consumer preferences or developments, affecting discretionary consumer spending in key markets.

Liquidity position: Strong

OEL’s liquidity position is strong, supported by free cash/bank and liquid balances of Rs. 53 crore (including current investment of Rs. 49.0 crore, comprising fixed deposits and mutual funds) and cushion available in the form of undrawn working capital limits of Rs. 24.5 crore as on September 30, 2024. OEL’s average utilisation of working capital limits during the 18-month period ended on November 30, 2024, stood at 15% (reflecting an average unutilised limit of Rs. 25.5 crore during the said period with adequate drawing power). The company plans to incur partially debt-funded capex of ~Rs. 30 crore in FY2025. However, the liquidity position will be supported by healthy net cash accruals and modest debt obligations of Rs. 7.93 crore in FY2025 and Rs. 8.00 crore in FY2026. The company plans to incur maintenance capex of ~Rs. 10 crore in the medium term.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to register a significant growth in revenues while maintaining its comfortable debt coverage metrics and liquidity position on a sustained basis.

Negative factors – The ratings may be downgraded if a significant decline in sales and profitability materially impacts the company’s debt coverage indicators and liquidity position. Any larger-than-planned debt-funded capex, adversely impacting the financial profile and liquidity position, would be a negative factor. Specific credit metric that could lead to ratings downgrade includes weakening of return on capital employed to below 15% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textile - Fabric
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of OEL. As on March 31, 2024, OEL had one subsidiary and one associate company, enlisted in Annexure-II.

About the company

Incorporated in 1983 as a private limited company, OEL was reconstituted as a public limited company in 1994. It is headed by Mr. Pankaj Seth and Ms. Anisha Seth, who acquired the company in 2004. OEL is listed on the Bombay Stock Exchange and the National Stock Exchange. It manufactures and exports fancy fabrics and operates across multiple verticals in the value-added fabric market, from women’s apparel to Christmas crafts and home decor, with special interests in occasion-specific fabrics and finished products. The company is headquartered in Mumbai with manufacturing facilities in Surat and Valsad (Gujarat), and in Thane (Maharashtra).

Key financial indicators (audited)

OEL Consolidated	FY2023	FY2024	H1FY2025*
Operating income	196.6	201.1	113.0
PAT	31.0	30.5	25.0
OPBDIT/OI	28.1%	26.4%	27.4%
PAT/OI	15.8%	15.2%	22.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.2
Total debt/OPBDIT (times)	0.6	0.4	0.4
Interest coverage (times)	16.3	18.5	31.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; 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	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Dec 30, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based - Term Loans	Long term	35.50	[ICRA]A (Stable)	18-Sep-23	[ICRA]A (Stable)	21-Jul-22	[ICRA]A-(Stable)	07-Arp-21	[ICRA]A-(Stable)
Long-term Fund-based - Cash Credit	Long term	-	-	-	-	21-Jul-22	[ICRA]A-(Stable)	07-Arp-21	[ICRA]A-(Stable)
Long-term / Short-term Fund-based Limits	Long term/ short term	30.00	[ICRA]A (Stable)/ [ICRA]A1	18-Sep-23	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-
Short-term Non-fund based	Short term	-	-	-	-	21-Jul-22	[ICRA]A2+	07-Arp-21	[ICRA]A2+
Long-term/Short-term Unallocated Limits	Long term/ short term	-	-	-	-	21-Jul-22	[ICRA]A-(Stable)/ [ICRA]A2+	07-Arp-21	[ICRA]A-(Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based - Term Loans	Simple
Long-term / Short-term Fund-based Limits	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	Term Loan	FY2020	8.0-8.8%	FY2027	35.50	[ICRA]A (Stable)
NA	Working Capital Limits	NA	NA	NA	30.00	[ICRA]A (Stable)/[ICRA]A1

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
Orbit Exports Limited	Rated Entity	Full Consolidation
Orbit Inc	Subsidiary	Full Consolidation
Rainbow Line Trading LLC	Associate	Equity Method

Source: Company data

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