

July 21, 2022

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 Limits	9.00	23.75	[ICRA]A-(Stable); reaffirmed
Long-term: Fund-based Term Loans	10.00	22.94	[ICRA]A-(Stable); reaffirmed
Short-term: Non-fund-based Limits	3.00	0.25	[ICRA]A2+; reaffirmed
Long-term/Short-term: Unallocated Limits	34.93	9.99	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	56.93	56.93	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation considers the extensive experience of the promoters of Orbit Exports Limited (OEL) in the textile industry and the company's established position in 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 despite moderation in operating performance in FY2021 and FY2022 due to the pandemic. The company's profitability indicators remain healthy given its presence in the niche high value-added textiles segment that enables it to charge a premium.

The ratings, however, remain constrained by OEL's modest scale of operations with revenues of Rs. 126.7 crore in FY2022. Further, the working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income (NWC/OI), remains high in the range of 40-50% primarily due to its high inventory holding period. The company's profitability remains susceptible to the foreign exchange 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 and strong financial profile.

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 of experience in exporting fabrics, which has 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

exports have enabled the company to report a healthy operating profit margin (OPM) in the range of 24-30% during the last five years (except in FY2021 when the OPM moderated to 19% due to the adverse impact of the pandemic).

Strong financial profile – OEL’s financial profile is strong, marked by a low gearing of 0.3 times as on March 31, 2022 (compared to 0.1 times as on March 31, 2021) due to healthy net worth position. Its debt coverage indicators are robust, as reflected by an interest coverage of 15.6 times in FY2022 (compared to 8.7 times in FY2021), net debt-to-operating profit ratio of 1.0 times as on March 31, 2022 (compared to -0.1 times as on March 31, 2021) and net cash accruals vis-à-vis the total debt (NCA/TD) of 56% in FY2022 (compared to 65% in FY2021). While the company’s performance was impacted in FY2021 and H1 FY2022 due to the pandemic, the overall financial profile continued to be strong, supported by limited reliance on debt and a comfortable liquidity position, marked by free liquid balances and unutilised bank lines. OEL witnessed swift demand recovery from Q3 FY2022, supported by healthy domestic demand, which led to quarterly revenues reaching the pre-pandemic levels. The export demand, after remaining muted in FY2021 and FY2022, is likely to pick up in the current fiscal, led by easing of pandemic-related restrictions and will contribute to revenue growth. ICRA notes that the company plans to increase its weaving capacity in FY2023, which will entail a total capex of Rs. 30-35 crore (expected to be funded by debt of Rs. 18-19 crore). Going forward, ramp-up of operations of the proposed capacity while maintaining its strong financial profile will be a key monitorable.

Credit challenges

Modest scale of operations – OEL is a mid-sized fabric manufacturing entity with revenues of Rs. 126.7 crore in FY2022. Modest scale of operations and stagnant revenue growth over the last few years constrained OEL’s ability to benefit from the economies of scale, weighing on its competitive position vis-à-vis the larger entities in the field. However, the management’s plans to increase the capacity is expected to improve the scale of operations over the medium term.

High working capital intensity of operations – The company’s working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income (NWC/OI), remains high in the range of 40-50% primarily due to 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 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 given that ~60-70% of the revenues are derived from exports. However, the fact that the company has a hedging mechanism in place against foreign exchange fluctuations provides some comfort. OEL’s revenues and profitability also remain susceptible to the cyclical nature in the global textile industry and volatility in the 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 to partly mitigate the intense competition in the industry and pass on the raw material prices to its customers, supporting its profitability.

Liquidity position: Adequate

OEL’s liquidity position is **adequate** supported by free cash/bank balances of Rs. 21.6 crore and cushion available in the form of undrawn working capital limits of Rs. 12.5 crore as on March 31, 2022. OEL’s average utilisation of working capital limits during the 15-month period ended on March 31, 2022, stood at 37% (reflecting an average unutilised limit of Rs. 15.1 crore during the said period with adequate drawing power). OEL plans to increase its weaving capacity by incurring a total capex of Rs. 30-35 crore in FY2023, which is expected to be funded by debt of Rs. 18-19 crore (of which Rs. 7.5 crore has been sanctioned). The company has term loan repayments of approximately Rs. 6 crore in FY2023, Rs. 8 crore in FY2024 and Rs. 10

crore in FY2025. Cash flow generation, after being impacted in FY2021 and FY2022 due to the pandemic, is expected to increase in FY2023 on the back of higher revenues and profitability and will be sufficient to meet the debt servicing obligations and capex requirements.

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 coverage metrics and liquidity position.

Negative factors – The ratings may be downgraded if there is a significant decline in sales and profitability that 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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Textiles Industry – Fabric
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of OEL. As on March 31, 2022, OEL had one subsidiary and one associate company which are enlisted in Annexure-2.

About the company

Incorporate in 1983 as a private limited company, OEL was reconstituted as a public limited company in 1994. It is currently headed by Mr. Pankaj Seth and his wife, 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 (Maharashtra) with manufacturing facilities in Surat and Sarigam (Gujarat), and in Bhiwandi (Maharashtra).

Key financial indicators (Consolidated)

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	70.6	126.7
PAT (Rs. crore)	1.6	15.2
OPBDIT/OI (%)	18.5%	23.9%
PAT/OI (%)	2.3%	12.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	1.6	1.7
Interest Coverage (times)	8.7	15.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: OEL, ICRA Research; All ratios as per ICRA’s calculations

Status of non-cooperation with previous CRA: OEL did not provide requisite information to CRISIL needed to conduct its surveillance rating process and was therefore classified as 'Issuer not-cooperating'. Based on the best available information with the credit rating agency, CRISIL has revised the ratings to 'CRISIL B/Stable/CRISIL A4 (Issuer Not Cooperating) for Rs. 57.83-crore bank facilities of OEL on July 14, 2021.

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
									21-Jul-2022
1	Fund-based Limits	Long-term	23.75	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	
2	Term Loans	Long-term	22.94	22.94*	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	
3	Non-fund-based Limits	Short-term	0.25		[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	
4	Unallocated Limits	Long-term/Short-term	9.99		[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A (Negative)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	

*as on June 30, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term: Fund-based Limits	Simple
Long-term: Fund-based Term Loans	Simple
Short-term: Non-fund-based Limits	Very Simple
Long-term/Short-term: Unallocated Limits	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund-based Limits	-	-	-	23.75	[ICRA]A-(Stable)
NA	Fund-based Term Loans	FY2020	7.0-7.5%	FY2026	22.94	[ICRA]A-(Stable)
NA	Non-fund-based Limits	-	-	-	0.25	[ICRA]A2+
NA	Unallocated Limits	-	-	-	9.99	[ICRA]A-(Stable)/[ICRA]A2+

Source: OEL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Sr.	Entity Name	Ownership	Consolidation Approach
1	Orbit Exports Limited	Rated Entity	Full Consolidation
2	Orbit Inc	Subsidiary	Full Consolidation
3	Rainbow Line Trading LLC	Associate	Proportionate Consolidation

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