

November 27, 2023

Gulabdas International Trading LLP: Ratings upgraded to [ICRA]A3 and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based limits	50.00	80.00	[ICRA]A3; upgraded from [ICRA]A4+ and assigned for enhanced amount
Total	50.00	80.00	

*Instrument details are provided in Annexure-I

Rationale

In assigning the rating, ICRA has considered the consolidated financials of Gulabdas International Trading LLP (GITL) and its group entity, Gulabdas & Co. (G&C). However, ICRA also notes that the entire business of G&C has been transferred to GITL in FY2023 and, subsequently, the entire revenues for the Gulabdas Group are now being booked under GITL.

The rating upgrade for GITL factors in the steady growth in its scale of operations and consequent increase in its operating profitability over the years. GITL's top line grew to Rs. 577.5 crore in FY2023 from Rs. 383.1 crore in FY2018, while its operating margin improved to 6.3% (4.1% in FY2022) on the back of easing input and operational costs. Coupled with reduction in debt levels, this has resulted in a comfortable capital structure and improvement in GITL's liquidity profile, which is expected to sustain, going forward. ICRA notes the significant capital withdrawals (primarily from the profits earned during the fiscal) in FY2023 primarily due to discontinuance of operations in G&C. The rating continues to take into consideration GITL's established operational track record along with the extensive experience of its promoters in the textile trading business. This has enabled the firm in developing established relationships with its clients, supporting the revenue growth over the years.

However, the rating remains constrained by the intense competition prevailing in the textile processing business, which, coupled with the trading nature of operations, result in relatively lower profit margins. The rating also factors in the firm's high client and geographical concentration in African markets and the vulnerability to geopolitical risks associated with the region. Nonetheless, the extensive operating experience of the promoters in the region and the firm's well-established client relationships mitigate the risks to some extent. Also, since most of the entity's revenues come in the form of exports, it remains exposed to adverse movements in foreign exchange (forex) rates. However, it hedges ~60-70% of its exposure, which mitigates this risk to some extent. ICRA also notes the limited liability partnership status of the firm, wherein any substantial withdrawals from the partner's capital account may adversely affect the capital structure and liquidity profile.

Key rating drivers and their description

Credit strengths

Established operational track record of the firm and extensive experience of the promoters in the textile industry – The entity has been operating in the textile processing space since 1961 and has been primarily catering to African markets. Its extensive experience has enabled the Group in establishing strong relationships with its customers and in developing a deeper understanding of the regional nuances of the market. The firm's operations are managed by Mr. Sanjay Bhagat and Mr. Prithvi Bhagat, who also collectively have an experience of more than two decades in the textile industry. Their extensive experience has enabled the firm to establish business relations with new customers, resulting in steady sales growth and revenue visibility.

Steady increase in scale up of operations – The group has seen healthy scale up in operations over the past years. The top line has also increased to Rs. 578 crore in FY2023 from ~Rs. 383 crore in FY2018. Further, the firm's margins also witnessed some

improvement in FY2023 supported by lower input and operating costs. The firm has already achieved revenue of Rs. 346 crore in 7M FY2023 and given the order book position in hand, the growth momentum is expected to sustain in the current fiscal as well.

Comfortable capital structure – GITL has seen improvement in its net worth over the years supported by steady accruals. Coupled with reduction in debt levels, this has resulted in a comfortable capital structure and coverage metrics, with gearing of 1.7 times and Total Debt/OPBDITA of 1.9 times in FY2023. ICRA notes the significant capital withdrawals (primarily from the profits earned during the fiscal) in FY2023 primarily due to discontinuance of operations in G&C. In the absence of any major debt-funded capex plans and scheduled debt repayments, the firm's capital structure is expected to remain comfortable over the near to medium term.

Credit challenges

Low profit margins given the trading nature of operations – The firm operates in the textile and trading industry, which is highly competitive due to the fragmented nature of the market and low entry barriers. Also, it continues to face competition from numerous unorganised and organised domestic players, as well as overseas competitors from Bangladesh, Pakistan, China, etc. Coupled with limited value addition in the nature of its operations, this has continued to result in relatively low operating margins for the firm.

High geographical and client concentration risks expose the firm's business to geopolitical risks – The Group is involved in processing and exporting fabrics (cotton and polyester, primarily to Senegal, The Gambia, Mauritania, etc. Consequently, it is exposed to the geopolitical risks prevailing in the region. Further, the firm's client concentration risk is also high with its top five customers driving more than 80% of its total revenues in recent years. Nonetheless, the extensive experience of its promoters and well-established client relationships mitigate the risk to some extent.

Revenues susceptible to forex fluctuations and cyclicity inherent in the textile industry – With more than 95% of the revenues coming in from exports, the firm remains exposed to foreign exchange fluctuations. To mitigate the same, it hedges a large portion of its exposure in the form of forward contracts. However, its operations continue to remain exposed to the cyclicity in the textile industry, including fluctuations in raw material prices.

Liquidity position: Adequate

GITL's liquidity profile is adequate, supported by steady internal accrual generation, free cash and bank balance of ~Rs. 9.1 crore as on August 31, 2023, and some buffer in its working capital bank lines, average utilisation of which was ~70% for the 12 months period ended August 2023. Further, the absence of any significant debt-funded capex plans and modest debt service obligations support the firm's liquidity position.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a sustained improvement in sales and earnings, resulting in strengthening of the debt protection metrics and liquidity profile.

Negative factors – The rating could be downgraded if there is any significant decline in sales and profitability along with weakening of the liquidity profile, on a sustained basis. Any significant capital withdrawal impacting the credit profile could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable

Consolidation/Standalone

In assigning the rating, ICRA has consolidated the financials of Gulabdas International Trading LLP and its group entity, Gulabdas & Co.

About the company

Established in 2014 by the Late Vinod Bhagat, GITL is part of the Gulabdas Group, which is involved in exporting designed and dyed fabrics to African markets. The firm does not have its own manufacturing facility and procures greige cloth and outsources the processing work (mercerising, bleaching, dyeing, printing, embroidery, etc) to job-workers in Maharashtra and Gujarat.

Key financial indicators (audited)

Group – Consolidated*	FY2022	FY2023
Operating income	563.2	577.5
PAT	11.0	17.3
OPBDIT/OI	4.1%	6.3%
PAT/OI	2.0%	3.0%
Total outside liabilities/Tangible net worth (times)	1.4	1.7
Total debt/OPBDIT (times)	3.3	1.9
Interest coverage (times)	2.5	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; * full consolidation of financials of both entities. ICRA also notes that FY2024 onwards, the entire revenues would be booked under GITL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 27, 2023	Dec 29, 2022	Sept 06, 2021	April 08, 2020
1 FDB/FBE/BRD	Short term	80.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based-FDB/FBE/BRD	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	FDB/FBE/BRD	NA	NA	NA	80.00	[ICRA]A3

Source: Gulabdas International Trading LLP

[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
Gulabdas International Trading LLP	N.A.	Full Consolidation
Gulabdas & Co.	N.A.	Full Consolidation

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Branches



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