July 23, 2024

Texport Industries Private 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	36.32	13.86	[ICRA]A (Stable); reaffirmed
Short term - Fund based limits	170.00	155.00	[ICRA]A1; reaffirmed
Long term/Short term – Unallocated	48.07	0.00	-
Total	**254.39**	**168.86**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Texport Industries Private Limited (TIPL) considers the expected improvement in the company's performance over the medium term on the back of its established market position, relationship with large international customers, expected long-term benefits from ongoing capacity additions and comfortable financial profile, characterised by adequate coverage indicators and liquidity position. After witnessing a healthy performance in FY2023, owing to tepid demand environment in the US region, there had been a decline in apparel export volumes in FY2024. While there was a marginal increase in volumes in the woven segment (accounting for ~78% of revenues in FY2024), a decline in knitted garment volumes by ~32% and a moderation in realisations resulted in a 20% fall in revenue in FY2024 (provisional) on a YoY basis. Further, lack of economies of scale resulted in a decline in the operating margin to 12.6% in FY2024, from the high level of 19.1% witnessed in FY2023. Historically, the margins witnessed in FY2023 were the highest recorded by TIPL over the last 10 years. However, the margins reported in FY2024 are still higher than ~10% witnessed in FY2021 and FY2022. While a marginal revenue growth is expected in FY2025, supported by its healthy order book position, more than 20% rise in revenues is expected in FY2026, with commencement of operations from the new facilities that are currently being set up. Further, TIPL's liquidity position has improved over the last two fiscals, backed by steady earnings and relatively lower reliance on external debt.

ICRA notes that TIPL is an approved participant under the Production Linked Incentive (PLI) scheme, and it has set up a new entity called Texana World Private Limited (TWPL, erstwhile DGG Export Private Limited). TIPL is in the process of setting up a manmade fibre (MMF) based garment manufacturing facilities at a total cost of ~Rs.200 crore, to be funded through term debt of Rs.100 crore and promoter contribution.

Besides, a knitting unit is being set up at a total cost of Rs.50 crore through its subsidiary, Punctuate World Private Limited (PWPL). Commercial operations in these projects are expected to commence in Q4 FY2025 and receipt of Government subsidies would further support its margins. While its debt metrics remained comfortable in FY2024, the same are likely to moderate in FY2025 due to the proposed capex. However, its debt coverage metrics and liquidity position are expected to remain comfortable.

The ratings continue to factor in the project execution and implementation risks, customer and geographical concentration risks, and TIPL's exposure to external risks such as geo-political factors (like tepid demand environment, Russia-Ukraine war etc.), foreign exchange rate fluctuations, along with regulations and duty structures across the markets. Any delays in the execution of the project plans or an increase in the budgeted capex could lead to further funding support from TIPL. Besides, the ratings consider the intense competition from other major garment exporting countries that limits pricing flexibility and the high working capital requirements inherent in the business.

The Stable outlook reflects ICRA's opinion that TIPL will benefit from the capacity additions, leading to an improvement in the operating metrics. Further, the outlook underlines ICRA's expectation that the company's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established presence as manufacturer and exporter – TIPL is an established manufacturer and exporter of garments, having an operational track record of more than four decades. It is among the large, organised exporters of men's wear in India, with sizeable capacities across woven and knitted garments. Further, TIPL's offerings remain diversified across products and end users. These operational strengths have supported TIPL's revenues over the years despite the customer-specific and industry challenges.

Strong customer base – TIPL exports to large renowned retailers and enjoys long relationship with its customers, as reflected in the recurring orders received from its key customers. TIPL's volume offtake has remained steady over the years (despite a moderation in FY2024 in the knitting segment), as its end customers enjoy healthy value share in their respective markets. In addition, an expected shift in sourcing by big retailers from other large competing supplier nations to India and TIPL's product/customer diversification initiatives are likely to support the long-term revenue growth potential of the company.

Comfortable coverage indicators – TIPL has posted an operating profit of Rs. 119.6 crore in FY2024 at the consolidated level. With healthy profitability and limited debt repayment obligations, TIPL's coverage metrics remained strong with an interest cover of 9.6 times, and total debt to operating profit of 1.6 times in FY2024. The liquidity position also remained comfortable, supported by healthy accruals and negative net debt in FY2023 and FY2024. Given the expected growth in revenues and earnings, TIPL's leverage indicators and coverage metrics are likely to remain at comfortable levels over the medium term despite the ongoing debt funded capacity expansion.

Credit challenges

Exposed to moderate concentration risk – TIPL's revenues remain susceptible to business concentration risk as the top five customers continue to contribute around 85% to the revenues and a major portion of the business is generated from the US market. Thus, the revenues and earnings depend on the performances of its key customers, apart from other factors such as regulations and duty structures across the markets. ICRA also notes the subdued demand environment for the apparels exports markets in the US, and the EU region (due to high inflationary pressure and Russia-Ukraine war). However, the risk is mitigated to an extent by the established relationship with its clientele and the continued steps taken by TIPL to diversify its revenue base (the diversification measures will be supported by the capacity expansion).

Exposure to moderate project risk related to recent debt-financed expansion – TIPL is currently setting up its PLI units at Shiggaon (Karnataka) and Kadapa (Andhra Pradesh) under TWPL. Further, it is setting up a knitting unit at Siricilla (Telangana) in PWPL. These facilities are being set up at an estimated cost of Rs.250 crore, being funded through term debt of Rs.125 crore and promoter contribution. As of June 30, 2024, TIPL has invested ~Rs.75 crore towards these projects and the new units are expected to commence commercial production in Q4 FY2025. Although the proposed expansion is expected to assist in diversifying its customers and products, the debt-funded expansion poses a moderate risk in project execution and stabilisation. Any delay in the execution of the project or an increase in the budgeted capex could lead to an increase in the overall project costs. The projects would also be exposed to market risks upon commissioning, however, TIPL's established presence is likely to support in securing timely orders.

Limited pricing flexibility exposes earnings to price risk – TIPL's earnings remain exposed to the fluctuations in raw material prices and exchange rates on the back of intense competition, limiting the pricing flexibility. The company faces competition from other large textile exporters from India as well as from other low-cost garment exporting countries, which limits its ability to improve prices and margins to an extent. However, ICRA notes that the forex risk is mitigated to some extent by the forward cover taken by TIPL and the risk of fluctuations in raw material prices is mitigated through simultaneous booking of raw materials on receipt of export orders. Further, TIPL's revenues and earnings are expected to remain steady in the coming quarters on the back of improving demand across product segments in the recent past.

Liquidity position: Strong

TIPL's liquidity position is expected to remain strong, with likely healthy cash flows from operations and adequate unutilised lines of credit and liquid investments held. The proposed capex for ~Rs. 216 crore, to be incurred in FY2025, is to be funded through term debt of ~Rs. 125 crore and the balance from internal accruals. On a standalone basis, TIPL's liquidity position is comfortable with Rs. 194.4 crore of cash and cash equivalent as of on March 31, 2024, and undrawn working capital limits of Rs. 44.7 crore as on May 31, 2024 (of TIPL's sanctioned limits of Rs.155 crore).

Rating sensitivities

Positive factors – The ratings may be upgraded if TIPL registers a sustained growth in the scale of operations and improvement in cash accruals, while maintaining comfortable debt protection metrics and liquidity.

Negative factors – The ratings may be downgraded if there is any sustained pressure on earnings or higher-than-anticipated debt-funded capex, which would adversely impact its debt protection metrics and liquidity. Specific credit metrics that may result in a revision in the ratings include the net debt to operating profit deteriorating to above 2 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 considered the consolidated financials of TIPL. Details of the entities considered for consolidation have been enlisted in Annexure-2.

About the company

TIPL was incorporated in 1978 by Mr. Narendra Goenka and family as a garment manufacturing export house. TIPL primarily exports readymade garments to developed countries, with the US being its largest market. TIPL operates from 10 manufacturing facilities spread across Bangalore, Hindupur (Andhra Pradesh) and Tirupur (Tamil Nadu). TIPL is also setting up three additional manufacturing facilities through its subsidiaries. The company caters to renowned brands in the American and European markets, serving their requirements across product categories.

Key financial indicators (audited)

TIPL Consolidated	FY2022	FY2023	FY2024*
Operating income	939.0	1,190.5	949.8
PAT	53.0	144.5	-
OPBDIT/OI	10.3%	19.1%	12.6%
PAT/OI	5.6%	12.1%	-
Total outside liabilities/Tangible net worth (times)	1.2	0.6	0.6
Total debt/OPBDIT (times)	2.2	0.5	1.6
Interest coverage (times)	6.1	18.0	9.6

*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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 23, 2024	Apr 13, 2023	-	Jan 24, 2022
1	**Fund-Based Limits**	Short Term	155.00	**[ICRA]A1**	**[ICRA]A1**	-	**[ICRA]A2+**
2	**Fund Based – Term Loan**	Long Term	13.86	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	**[ICRA]A- (Stable)**
3	**Unallocated**	Long Term/ Short Term	0.00	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	**[ICRA]A- (Stable)/ [ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Term loan	Simple
Short term - Fund based	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 - Fund Based- Term loan**	FY2014-FY2017	NA	FY2026	13.86	[ICRA]A (Stable)
NA	**Short term - Fund based limits**	NA	NA	NA	155.00	[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
Texport Apparels LLP *	--	Full consolidation
Texana World Private Limited	99%	Full consolidation
Punctuate World Private Limited	99%	Full consolidation

*Source: TIPL * strong operational and management linkages enjoyed by Texport Apparel LLP with TIPL.*

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About ICRA Limited:

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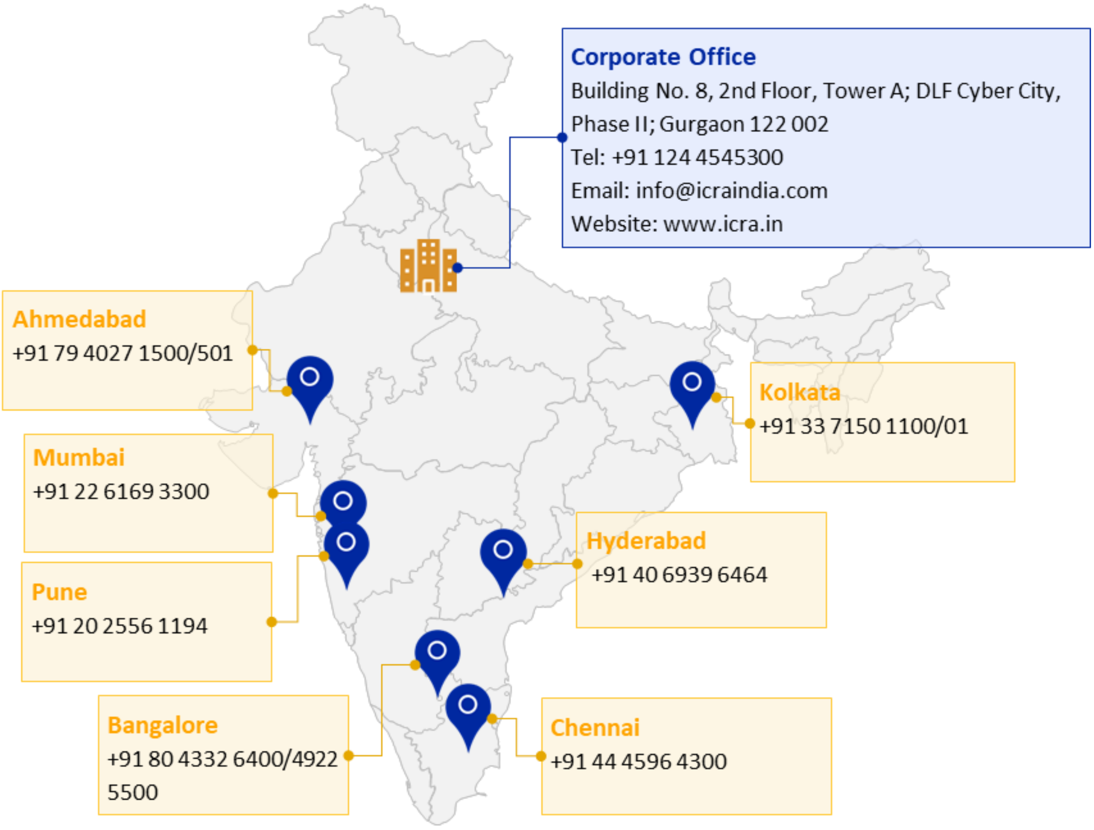

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