

July 12, 2021

RA International: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Export Packaging Credit	13.00	13.00	[ICRA]BBB (Stable); Reaffirmed
Short-term Non Fund based – Letter of Credit	34.00	34.00	[ICRA]A3+; Reaffirmed
Issuer Rating	-	-	[ICRA]BBB (Stable); Reaffirmed
Total	47.00	47.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in ICRA's expectation that the returns and debt coverage indicators of RA International (RAI) are likely to remain comfortable in FY2022, led by continued healthy operating margins and low debt position. The revenue growth is also expected to remain moderate in FY2022 after a significant revenue decline was witnessed in the last two financial years. ICRA notes that the savings in travelling expenses kept RAI's profitability healthy in FY2021, despite a low scale of operation. Healthy profitability along with a conservative capital structure resulted in comfortable debt coverage indicators, as reflected by an interest coverage of ~9.0 times and Total Debt/OPBDITA of ~0.7 times estimated for FY2021. The liquidity position also remained comfortable with cash and equivalents of around Rs. 5.4 crore estimated as on March 31, 2021. The ratings continue to draw comfort from RAI's established presence in the apparel industry and its strong customer base consisting of renowned international players and reputed brands.

The ratings, however, remain constrained by high customer concentration risk with top five customers contributing 96% to the total sales in FY2021. ICRA also considers the exposure of the firm's margins to volatility in fabric prices and foreign currency fluctuations, given that RAI derives its entire revenues from exports. In addition, the ratings remain constrained by RAI's vulnerability to adverse economic conditions, like weakness in consumer spending and intense competition in the domestic apparel market, given the firm's presence in the highly fragmented industry. Further, the ratings note the inherent risk of capital withdrawals associated with a partnership concern. Capital withdrawal remained high in FY2021 at Rs. 15 crore relative to the withdrawal of Rs. 8.27 crore in the previous year. Any significant capital withdrawal will remain a key rating sensitivity, going forward.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's expectation that RAI would continue to benefit from the extensive experience of partners in the apparel industry and the established relations with its customers.

Key rating drivers and their description

Credit strengths

Long track record of the firm – The firm has a long track record of over 30 years in the garment manufacturing and exporting industry and has a professional management team, which supported in establishing relationships with reputed customers.

Strong customer base – The firm's customer base is strong comprising renowned international players and reputed brands such as New Yorker, Springfield, Brands, Collins etc.

Comfortable financial profile characterised by healthy margins and low debt – The firm mainly focuses on designing, sampling, and export of garments and follows an asset-light model of operations. Earlier the firm used to import fabric from China and outsource the manufacturing activities to garment manufacturers in Bangladesh. However, post the pandemic, the firm has reduced import of fabrics from China and around 90% of the fabric used in the garments are procured from India and Bangladesh. Further, the source for purchase of fabric is determined by the firm and the manufacturers are directly purchasing fabric from FY2021. Thus around 60-70% of the sales came from trading operations in FY2021. Going forward, the proportion of trading sales is expected to remain high. RAI's revenues declined consecutively in FY2020 and FY2021 by 20% and 31%, respectively. A sharp decline in revenues in FY2021 is because of the pandemic-related demand disruptions witnessed during the major part of the fiscal, exacerbated by its presence in the formal wear segment. Nonetheless, savings in travelling expense are likely to result in an improvement in the operating profit margin by ~200 bps in FY2021. Healthy profitability along with low debt levels resulted in healthy return indicators, conservative capital structure, and adequate coverage indicators in FY2021, which are likely to continue in the current financial year as well.

Credit challenges

High customer concentration – The firm's revenues remain exposed to customer concentration risk as the top five customers contributed 96% to the total sales in FY2021. Any decline in offtake from the top customers may impact the firm's revenue growth.

Profitability exposed to fluctuation in raw material prices and price exchange rate fluctuations – The firm's profit margins are exposed to the fluctuation in raw material prices, which depend on factors like international demand and supply situation, import policy etc. RAI derives its entire revenues from exports and hence is exposed to exchange rate fluctuations, although the same is mitigated partially through natural hedge, as purchases from Bangladesh are mainly dollar denominated.

Intense competition in the apparel-retail segment and vulnerability to changing fashion trends – The firm faces intense competition from the organised, and unorganised domestic and international players, particularly from the entities involved in export of garments from Bangladesh and Vietnam. This limits the pricing power of RAI to an extent. Moreover, the entire fashion industry is vulnerable to changing trends, consumer tastes and economic cycles.

Inherent risks for being a partnership firm – It is vulnerable to capital withdrawals by the partners apart from the inherent risks of a partnership firm.

Liquidity position: Adequate

The firm's liquidity position remains adequate, supported by healthy cash from operations, adequate buffer in the working capital limits and absence of any major capital expenditure plan. Further, the entity has no long-term debt and utilises packing credit facilities to meet a portion of its working capital requirements. Despite a reduction in the free cash reserve because of high withdrawal of capital by the partners in FY2021 and an increase in investment in shares, the cash buffer enjoyed by the company (including liquid investments and unutilised lines of credit) continues to remain comfortable.

Rating sensitivities

Positive factors – ICRA may upgrade the firm's ratings if it diversifies its customer profile, witnesses a healthy revenue growth on a sustained basis and maintains high operating margins.

Negative factors – Pressure on the firm's ratings could emerge if higher-than-expected revenue decline impacts its accruals and coverage metrics. The ratings could also be downgraded if any substantial withdrawal in capital or liquid investments or any large capex/inorganic expansion impacts its liquidity. Specific credit metrics that may trigger a rating downgrade include ROCE below 13% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Indian Textiles Industry –Apparels
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

RA International (RAI) was established as a partnership firm in 1996 by three Kolkata-based individuals, namely, Mr. Jagdish Prasad Agarwala, Mr. Sandeep Kumar Poddar and Mr. Siddhart Kumar Poddar. The firm mainly exports readymade garments of men and women from Bangladesh to European countries. Around 99% of the firm's sales were made in Europe and the balance in Turkey in FY2021.

Key financial indicators

	FY2019	FY2020	FY2021 (Provisional)
Operating Income (Rs. crore)	179.03	139.98	96
PAT (Rs. crore)	22.17	15.31	18
OPBDIT/OI (%)	13.57%	13.06%	-
PAT/OI (%)	12.39%	10.94%	18.75%
Total Outside Liabilities/Tangible Net Worth (times)	0.37	0.23	-
Total Debt/OPBDIT (times)	0.51	0.54	-
Interest Coverage (times)	7.20	7.17	-

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

Status of non-cooperation with previous CRA's:

CARE, in its rationale published on RA International, dated October 19, 2020, continued the ratings on Issuer not cooperating category at CARE A4 based on best available information.

CRISIL, in its rationale published on RA International, dated March 24, 2021, continues the rating on Issuer not cooperating category at CRISIL A4 based on best available information.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in July 12, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2019
1	Export Packaging Credit	Long-term	13.00	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	-	-
2	Letter of Credit	Short-term	34.00	-	[ICRA]A3+	-	[ICRA]A3+	-	-
3	Issuer Rating	Long-term	-	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable); Removed from ISSUER NOT COOPERATING	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Export Packaging Credit	Simple
Short-term Non-Fund-based – Letter of Credit	Very Simple
Issuer Rating	NA

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 analyzing 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	Long-term Fund-based – Export Packaging Credit	-	NA	NA	13.00	[ICRA]BBB (Stable)
NA	Short-term Non Fund based –Letter of Credit	-	NA	NA	34.00	[ICRA]A3+
NA	Issuer Rating	-	NA	NA	-	[ICRA]BBB (Stable)

Source: Firm

Annexure-2: List of entities considered for consolidated analysis

Not Applicable.

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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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