Gaurav International

March 15, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term loans	-	7.00	[ICRA]BBB+(Stable); assigned
Fund based- Working Capital Facilities	60.00	50.00	[ICRA]A2; reaffirmed
Non-fund based Facilities – LC/BG	10.00	20.00	[ICRA]A2; reaffirmed
Total	**70.00**	**77.00**	

**Instrument details are provided in Annexure-1*

Rationale

In reaffirming the ratings, ICRA has taken a consolidated view of the financial and operational profile of GI and Richa & Company (R&C)[1] given their common promoters and similar nature of operations. Together these are referred to as the Group.

The rating action takes into account the revenue growth reported by the Group in the current fiscal, supported by an increase in both export volumes and prices. The ratings also note the steady internal accrual generation, which has resulted in moderate gearing levels and adequate debt protection metrics. Moreover, the ratings continue to factor in the extensive experience of the Group's promoters, its established track record of operations in the garment export industry and its sizeable manufacturing base. Over the years, the Group has developed a wide customer base, which includes reputed international brands. Also, its long relationship with these entities has resulted in repeat orders.

However, the ratings are constrained by the intense competition in the industry, which limits the pricing flexibility of industry participants, including the Group. Also, the susceptibility of its profit margins to volatility in raw material prices and adverse movement in foreign exchange rate (as exports account for almost the entire revenue) limit the ratings. These factors, coupled with some reduction in export incentives for ready-made garment exporters post Goods and Service Tax (GST) implementation, has exerted some pressure on profit margins in FY2018 and the current fiscal, despite some additional incentives being offered. Moreover, some delay in the recovery of export incentive receivables and increase in the debtor cycle have elevated the funding requirements of the business, translating into higher reliance on external debt in FY2018 and the current fiscal. Although the Group has witnessed some recoveries in the export incentives in the current fiscal, subsequent recoveries in the same, along with the level of capital withdrawals by the partners, will be instrumental in determining the future funding requirements and liquidity position of the business going forward. Also, the high concentration of exports to the US and Europe exposes the Group to risks of geographic concentration as well as changes in regulations and duty structures in these markets. ICRA also notes the risks inherent in a partnership firm such as limited ability to raise equity capital, risk of dissolution etc., as demonstrated by the continued sizeable capital withdrawals by the partners of the firms in the Group.

1 Rated [ICRA]BBB+ (Stable)/[ICRA] A2

Going forward, the Group's ability to maintain its revenue growth and profitability margins amid competition, improve its working capital cycle, and reduce capital withdrawals will remain the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the Group will continue to maintain a healthy scale of operations supported by the extensive experience of its promoters in the industry and long relationships with customers, alongside a sizeable manufacturing base. The outlook may be revised to Positive, if there is a sustained decline in capital withdrawals by partners, leading to reduced dependence on bank funding, or if the Group is able to maintain a sustained increase in its scale of operations along with healthy profitability and liquidity position. The outlook may be revised to Negative, if the Group witnesses significant deterioration in its scale of operations or profitability due to adverse regulatory changes in India/exporting countries or otherwise, or if subsequent delays in recoveries of export incentive receivables lead to a stretch in its working capital intensity and liquidity position.

Key rating drivers

Credit strengths

Four-decade-long experience of promoters in textiles industry - The Group was founded in 1977 by the Uppal family, which has been involved in the garment manufacturing and export industry for over four decades.

Sizeable scale of operations and manufacturing base of the Group - Over the years, the Group has steadily increased its manufacturing capacities and garment product portfolio in terms of design, fabrics etc. Thus, the Group benefits from economies of scale, given its sizeable manufacturing base. Its largest entity – R&C – has an annual manufacturing capacity of ~1.4 crore garments.

Established client relationships with leading international brands - Over the years, the Group has developed a wide customer base, which includes reputed names such as Ann Taylor, Belk International and Abercrombie & Fitch. Repeat orders from these customers have driven the Group's revenue growth over the years.

Moderate gearing and adequate debt coverage metrics - The Group has a moderate leverage profile as reflected by gearing of 1.6 times as on March 31, 2018. Further, the debt coverage indicators have remained adequate with interest coverage of 3.0 times and Debt Service Coverage Ratio (DSCR) of 2.2 times as on March 31, 2018.

Credit challenges

Revision in duty drawback rates post GST implementation impacted profitability - Post the implementation of GST for the textile industry in October 2017, there was a downward revision in duty drawback rates across the industry. This impacted the profitability of industry players, including the Group in FY2018, with OPBDITA/OI of 7.3% in FY2018 against 9.3% in FY2017.

Increase in working capital intensity due to build-up of incentive receivables - The Group witnessed incentive receivable build-up in FY2018, post the implementation of GST in October 2017. This, coupled with an increase in debtor cycle, resulted in increased working capital intensity and funding requirements for the Group. This resulted in high utilisation of working capital limits in FY2018 and the current fiscal.

Limited bargaining power due to significant competition in garment exports business - The garment export industry is highly fragmented and characterised by intense competition among exporters from India and other low-cost countries such as Bangladesh, China, Vietnam and Indonesia. The intense competition keeps the pricing power in check, thereby limiting the profitability and the ability of industry participants to pass on the increase in input costs of yarn and fabric.

Exposure to adverse movement in foreign exchange rate given the export-driven revenue profile - The Group's profitability is susceptible to adverse movement in foreign exchange rates, given its export-driven revenue profile. Any appreciation of rupee vis-à-vis dollar will adversely impact the Group's revenues and profitability in the short term as well as its competitiveness against other exporting countries. However, partial hedging via forward contracts mitigates the risk to an extent.

Exposure to geographical-concentration risk - The Group exports primarily to the US and European countries. As such, it remains exposed to high geographical-concentration risk alongside adverse changes in regulations, trade policies etc. in these regions.

Inherent risks due to partnership nature of Group entities - The Group entities are partnership firms and are exposed to inherent risks like withdrawal of capital, limited ability to raise capital, risk of dissolution etc. This is also demonstrated by regular capital withdrawal by the partners in the Group's firms, which has made the Group entities heavily dependent on bank funding as demonstrated by high utilisation of the working capital limits availed from the bank.

Liquidity position

Steady revenue growth over the years has driven the internal accrual generation of the Group, which supports the liquidity position. However, there have been regular capital withdrawals by partners which, coupled with higher funding requirements due to increased working capital intensity, have led to increased reliance on external debt. However, the cash accruals generated by the Group remain sufficient to meet its debt servicing obligations. The Group had free cash balance of Rs. 3.0 crore as on March 31, 2018 and unutilised packing credit limits of Rs. 6.3 crore as on November 30, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textile Industry- Apparels
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the group entity- Richa & Company (R&C) (as mentioned in Annexure-2) given the close business, financial and managerial linkages between GI and R&C.

About the company

GI is a partnership firm promoted by members of the Uppal family. The firm is involved in manufacturing and exporting woven apparels and home furnishing items. The firm has manufacturing facilities located in National Capital Region and mainly exports to renowned brands/marketers in the US and Europe such as Ann Taylor, Belk International etc.

On a consolidated basis, for FY2018, the Group reported profit after tax (PAT) of Rs. 29.9 crore on an operating income (OI) of Rs. 901.5 crore against PAT of Rs. 35.7 crore on an OI of Rs. 970.8 crore in FY2017.

On a standalone basis, For FY2018, GI reported PAT of Rs. 10.2 crore on an OI of Rs. 285.4 crore against PAT of Rs. 15.9 crore on an OI of Rs. 340.5 crore in FY2017.

Key financial indicators (audited)- Consolidated- the Group

	FY2017	FY2018
Operating Income (Rs. crore)	970.8	901.5
PAT (Rs. crore)	35.7	29.9
OPBDIT/OI (%)	9.3%	7.3%
RoCE (%)	28.6%	21.6%
Total Debt/TNW (times)	1.6	1.6
Total Debt/OPBDIT (times)	1.9	2.9
Interest Coverage (times)	3.9	3.0

Source: GI and R&C's annual reports, ICRA research

Key financial indicators (audited)- Standalone- GI

	FY2017	FY2018
Operating Income (Rs. crore)	340.5	285.4
PAT (Rs. crore)	15.9	10.2
OPBDIT/OI (%)	9.7%	8.0%
RoCE (%)	29.6%	21.1%
Total Debt/TNW (times)	1.4	1.3
Total Debt/OPBDIT (times)	2.0	2.7
Interest Coverage (times)	4.2	2.9

Source: GI's annual reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016		Date & Rating in FY2014
					March 2019	April 2018	March 2017	February 2016	April 2015	March 2014
1	Term loans	Long-term	7.00	7.00	[ICRA]BBB+ (Stable)	-	-	-	-	-
2	Fund-based limits	Short-term	50.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
3	Non-Fund based limits – LC/BG	Short-term	20.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Term loans	FY2016	-	FY2022	7.00	[ICRA]BBB+(Stable)
NA	Fund-based limits	-	-	-	50.00	[ICRA]A2
NA	Non-fund based limits	-	-	-	20.00	[ICRA]A2

Source: GI

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Richa & Company	NA	Full Consolidation

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