

April 07, 2021

## Orbit Exports Limited: Ratings downgraded to [ICRA]A-/[ICRA]A2+; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-based - Cash Credit	9.00	9.00	[ICRA]A- downgraded from [ICRA]A; Outlook revised to Stable from Negative
Long Term Fund Based – Term	10.00	10.00	[ICRA]A- downgraded from [ICRA]A; Outlook revised to Stable from Negative
Short Term Non-fund based	3.00	3.00	[ICRA]A2+ downgraded from [ICRA]A1
Long Term/ Short Term - Unallocated limits	34.93	34.93	[ICRA]A-/[ICRA]A2+ downgraded from [ICRA]A/[ICRA]A1; Outlook revised to Stable from Negative
<b>Total</b>	<b>56.93</b>	<b>56.93</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating revision factors in the subdued growth in Orbit Exports Limited's (OEL) turnover over the last three fiscals. OEL's sales have witnessed a sharp dip of 58.5% in 9M FY2021 compared to the corresponding period in the previous year. Operating profit margin also dented to 24.88% in 9M FY2021 from 29.97% in 9M FY2020. Further, with decline in operating profit level, return indicators also stood low as reflected by ROCE of 1.81% in 9M FY2021(standalone level). This is driven by subdued demand conditions led by the nationwide lockdown owing to the Covid-19 pandemic. Subsequently, the same led to under absorption of costs and losses in Q1 FY2021, which in turn put pressure on its performance in nine months. The rating also takes into consideration the high working capital intensive nature of operations given the high inventory levels as well as stretched receivables. With a large variety of fabric being manufactured, the finished goods inventory level has remained at elevated levels. On a standalone basis, inventory days have further increased and stood at 230 days as on December 31, 2020 over 148 days as on March 31, 2020. The rating action also factors in the uncertainties with respect to the loss resulting from the recent fire incident (March 24, 2021) in the warehouse at Bhiwandi, Thane. The company is in the process of filing an insurance claim for recovery for damages caused by the accident, and the extent of recovery remains to be seen. Given the export-dominated revenue profile of the company with exports accounting for ~73% of total revenues, OEL's operations continue to remain vulnerable to volatility in foreign currency exchange rates and global textile demand conditions. Profitability is also exposed to raw material price volatility.

The ratings, however, continues to positively consider the extensive experience of the promoters in the textile industry and the comfortable capital structure with a gearing ratio of 0.10 time as on March 31, 2020. The liquidity profile remains comfortable as well, with satisfactory liquid balances and minimal fund-based utilisation. Given the higher proportion of in-house fabric manufacturing, the quality of products has enhanced and enabled the company to increase its sales in the international market and cater to reputed brands like 'The Childrens Place'.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters for more than two decades 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. At present, it is managed by Mr. Pankaj Seth and Mrs. Anisha Seth. The management has an experience of more than two decades in manufacturing and exporting fabrics, which has enabled the company to establish itself in the domestic as well as international markets and to strengthen its financial performance.

**Comfortable capital structure supported by high internal accruals** - The capital structure of the company has witnessed continuous improvement over the last five years on account of infusion of fresh equity, healthy accruals to reserves as well as low borrowing levels. The total debt of Rs. 9.30 crore as on September 30, 2020 comprised term loans and short-term bank loans, while the working capital requirement was primarily met by internal accruals.

**Presence in high value-added product segment, with backward integration into in-house manufacturing and increasing focus on exports to reputed brands** – 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 enabling the company to charge a premium. Further, a higher proportion of in-house fabric manufacturing against outsourcing has resulted in enhanced quality of products. This, in turn, has resulted in increased acceptance for OEL's products in the international market as evinced by its exports to reputed brands such as 'The Childrens Place'.

### Credit challenges

**Weak performance in 9M FY2021; debt-funded capex expected to moderate coverage indicators** – The company's operating income at a consolidated level was lower by 58.5% in 9M FY2021, in comparison to 9M FY2020, while its operating margin in 9M FY2021 declined to 24.88% from 29.97% in 9M FY2020, mainly on account of lower sales leading to lower absorption of costs in Q1 FY2021. This has led to moderation of coverage indicators with interest coverage declining in 9M FY2021 to 12.72 times from 30.62 times in 9M FY2020. ICRA notes that the company has availed a new term loan of Rs. 28 crore for capital expenditure towards setting up a new process house, which could put pressure on its coverage indicators. Furthermore, while the extent of loss from the fire accident is yet to be fully assessed and the company has an insurance cover, ICRA believes that there can be a material impact on OEL's overall financial risk profile.

**Modest scale of operations encumbers competitive position** - OEL is a mid-sized fabric manufacturing entity with revenues of Rs. 146.03 crore recorded in FY2020. The modest scale of operations and minimal revenue growth has constrained the company's ability to benefit from economies of scale, weighing on its competitive position vis-à-vis larger entities in the field.

**Working capital intensive nature of operations emanating from high inventory holding as well as stretched receivables** - The company's working capital intensity (NWC/OI) stood high at 44% and 46% in FY2019 and FY2020, respectively. On a standalone basis in 9M FY2021, working capital intensity stood at 85%, due to its high inventory levels as well as stretched receivables. Slow collection of receivables from Orbit Group concerns, through which some of its sales are routed, led to an elongation in the collection cycle. With a variety of fabrics manufactured as per customer specifications, the finished goods inventory levels remained high, thus increasing its working capital intensity.

**Vulnerability of profitability to global textile demand conditions and volatility in foreign currency exchange rates** - OEL's operations remain susceptible to the cyclical nature in the textile industry, as a result of which revenues have remained subdued. The profitability of the company also remains susceptible to adverse movements in foreign exchange rates, given its export-driven revenue profile. However, the fact that the company has a hedging mechanism in place against foreign exchange fluctuations provides some comfort.

**Highly fragmented nature of industry with competition from organised and unorganised players in the domestic market** – The textile industry is highly 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 high competition in the textile industry, supporting profitability.

## Liquidity position: Adequate

OEL's liquidity is adequate, given the buffer available in working capital limit, which remains undrawn as on December 31, 2020. The company had free cash and bank balance of Rs. 5.23 crore as on September 30, 2020. It has an ongoing capex plan to the tune of Rs. 55-57 crore in FY2021 and FY2022, to be funded through a sanctioned term loan of Rs. 28.00 crore and the balance through internal accruals. The scheduled repayment obligation for term loans is expected to range from ~Rs. 3-5 crore over the next three years. The absolute profits and cash accruals are likely to decline in the current year. However, ICRA expects its cash flows to remain comfortable relative to its debt service obligations, going forward, given OEL's healthy cash accruals, limited burden of term debt repayments and cushion available in the form of undrawn working capital bank limits.

### Rating sensitivities

**Positive factors** - The ratings may be upgraded if the company is able to ramp up operations post the completion of ongoing capex and register significant growth in revenues while maintaining its profitability margins at par with pre-Covid levels on a sustained basis.

**Negative factors** - The ratings may be downgraded if there is significant decline in sales and profitability that materially affects the company's liquidity and debt coverage indicators. Any higher than anticipated debt-funded capex, which affects coverage indicators adversely, could also trigger a downward rating.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Indian Textiles Industry – Fabric</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

## About the company

Incorporated in 1983 as a private limited company, OEL was converted into a public limited company by offering its equity shares to the public via an Initial Public Offering (IPO) in 1994. The company manufactures and sells woven fabric and made ups. OEL's fabrics find use in manufacturing of high fashion evening wear, home furnishings, bridal wear, and for festive /holiday occasions. The company's manufacturing facilities are at Surat (Gujarat) and Kalyan (Maharashtra), while its corporate office is in Mumbai.

## Key financial indicators

OEL Consolidated	FY2019 (Audited)	FY2020 (Audited)	9MFY2021 (Unaudited)
Operating Income (Rs. crore)	138.56	146.03	47.92
PAT (Rs. crore)	25.75	26.26	6.23
OPBDIT/OI (%)	27.67%	28.76%	24.88%
PAT/OI (%)	18.59%	17.99%	13.01%
Total Outside Liabilities/Tangible Net Worth (times)	0.27	0.31	N.A.
Total Debt/OPBDIT (times)	0.26	0.43	N.A.
Interest Coverage (times)	19.40	23.35	12.72

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

OEL Standalone	FY2019 (Audited)	FY2020 (Audited)	9MFY2021 (Unaudited)
Operating Income (Rs. crore)	133.39	139.70	45.77
PAT (Rs. crore)	23.12	23.13	1.24
OPBDIT/OI (%)	27.80%	28.67%	15.31%
PAT/OI (%)	17.33%	16.56%	2.72%
Total Outside Liabilities/Tangible Net Worth (times)	0.28	0.32	0.24
Total Debt/OPBDIT (times)	0.26	0.40	0.71
Interest Coverage (times)	25.22	27.52	7.47

Source: OEL, ICRA research

**Status of non-cooperation with previous CRA:** OEL did not provide the 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 BB+/Stable/CRISIL A4+/Issuer Not Cooperating to the Rs.57.83-crore bank facilities of OEL.

**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 Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					7-Apr-21	21-Aug-20	31-Mar-20	27-Sep-18		
1	Fund-based- Cash Credit	Long-term	9.00	-	[ICRA]A-(Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	
2	Fund based Term Loan	Long-term	10.00	3.7	[ICRA]A-(Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	
	Non-Fund Based	Short-term	3.00	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	
	Unallocated amount	Long-term and short term	34.9	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A (Negative)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-	

## 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 [click here](#)

**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	Cash Credit	NA	NA	NA	9.00	[ICRA]A-(Stable)
NA	Term Loan	May'18		Apr'23	10.00	[ICRA]A-(Stable)
NA	Bank Guarantee/ Derivative exposure	NA	NA	NA	3.00	[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	34.93	[ICRA]A-(Stable)/ [ICRA]A2+

**Source:** Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	OEL Ownership	Consolidation Approach
Orbit Exports Limited	100.00% (rated entity)	Full Consolidation
Orbit Inc.	100.00%	Full Consolidation
Excellere (UK) Limited	100.00%	Full Consolidation
Rainbow Line Trading L.L.C.	49.00%	Full consolidation

**Source:** OEL annual report FY2020

**Note:** ICRA has taken a consolidated view of the parent (OEL), its subsidiaries and associates while assigning the ratings.

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