

December 18, 2023

Laguna Clothing Private Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term, fund based – packing credit limit	75.00	120.00	[ICRA]BBB- (Stable); Reaffirmed/ Assigned
Short term, non-fund based – letter of credit	22.00	52.00	[ICRA]A3; Reaffirmed/ Assigned
Long term/Short term, fund based, and non-fund based, combined working capital limits	40.00	35.00	[ICRA]BBB- (Stable) / [ICRA]A3; Reaffirmed
Long term – Fund Based – Term Loans	-	60.00	[ICRA]BBB- (Stable); Assigned
Total	137.00	267.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings continue to derive comfort from Laguna Clothing Private Limited's (LCPL) established operational track record and its relationship with reputed international customers. The ratings also consider the company's linkages with the CIEL Group, which has operations spread across 10 countries through its subsidiaries, thereby further strengthening LCPL's export customer base. The company reported revenues of Rs. 598 crore in FY2023, and Rs. 315 crore in H1 FY2024 supported by elevated realisations and sustained healthy demand from the key premium customers. LCPL also has a healthy order book of Rs. 225 crore to be fulfilled over the next half of FY2024, which lends adequate revenue visibility. While steady increasing sales of premium cotton category in FY2023 resulted in better gross contribution margins than the last five fiscal years, higher reliance on outsourcing to meet the surging demand and higher sales commission expenses paid to the parent entity exerted pressure in its operating profit margin (OPM) to 7.7% in FY2023. That said, the operating profit margins are expected to improve in FY2024 driven by higher scale of operations.

The ratings, however, remain constrained by the high working capital intensity of operations, leading to high bank limit utilisation, which coupled with high encumbered balance of Rs. 30 crore translates into a continued stretched liquidity position for the company. The company's financial profile also remains moderate due to a large debt-funded capital expenditure (capex) incurred in FY2023. The company's margins also remain exposed to the foreign exchange risks, as exports account for about 85% of its revenues. However, this exposure is partly mitigated through a combination of natural hedge and hedging net forex exposure using forward covers. Besides, the profit margins remain susceptible to any regulatory changes related to export incentives, any other subsidies or interest subvention schemes. The highly fragmented textile industry, characterised by intense competition from established domestic and international players, also limits its pricing flexibility.

The Stable outlook on [ICRA]BBB- rating reflects ICRA's opinion that LCPL's credit profile will remain supported by a healthy order book position and favourable realisations in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Part of CIEL Group with global presence; strategically important to the Group's operations – LCPL is a joint venture between Aquarelle International Limited and Aquarelle Clothing Limited in the ratio of 99:1. Aquarelle International Limited is a step-down subsidiary of CIEL Limited based out of Mauritius. The Group has a presence across various segments such as textiles,

hotels and resorts, healthcare, among others. The textile division generates 50-60% revenues for the Group and LCPL generates ~60-65% of the textile division's revenues, making it strategically important for the Group's operations. The Group's global presence also helps the company establish long-term relationships with its export customers, which results in repeat orders.

Experienced management; reputed customer and supplier base – The company is currently managed by the Managing Director, Mr. Sarbajit Ghose, who is also a part of the CIEL Group's board of directors, and Mr. Rajesh Kumar, CEO of the company, having more than a decade of experience in the textile segment. The day-to-day operations are managed by the directors, the CEO and the team based out of India. The company, by virtue of being a part of the CIEL Group, secures repeat business from reputed customers in both export as well as domestic markets. For the supply arrangements, the company deals with reputed domestic players to procure cotton fabric.

Healthy order book position lends revenue visibility – Despite the demand headwinds prevailing in the export market, particularly in the western and European markets owing to uncertain economic conditions, the company reported a 77% YoY revenue growth to Rs. 598 crore in FY2023. This was supported by the company's elevated realisations and sustained healthy demand from its key premium customers. The revenue momentum sustained in H1 FY2024, with the company reporting revenue of Rs. 315 crore. The company's unexecuted order book size of Rs. 225 crore, as on November 05, 2023, is expected to be completed within the next 6 months, which lends adequate revenue visibility for FY2024.

Credit challenges

Moderate financial profile, stretched liquidity position - The company's debt level remained high due to working capital intensive nature of operations. The company also incurred debt funded capex of Rs. 78 crore, funded by debt of Rs. 50 for acquiring the Dodaballapura, Karnataka facility and the expansion of its stitching lines capacity in FY2023. This coupled with moderate profitability due to greater reliance on outsourcing in FY2023, resulted in moderation of leverage and debt protection metrics with total outside liabilities vis-à-vis tangible net worth of 3.6 times as on March 31, 2023 (against 3.1 times on March 31, 2022) and net debt vis-à-vis operating profit of 3.6 times as on March 31, 2023. The liquidity position of the company also remains stretched as evident by its high fund-based limited utilisation.

Working capital-intensive nature of operations – The working capital intensity of the company, reflected by the net working capital vis-à-vis operating income stood high at 28-35% in the last five years, given the nature of its business. The operations of the company are working capital-intensive on account of a long credit period of about 70 days to customers and high inventory holding requirement of the business. While the company receives credit period of 65-70 days from its suppliers, on an average it holds 60-65 days of inventory. Further, ICRA notes few instances of delays in servicing export bill discounting facility due to delays in recovery from customers during the bank statement analysis. However, the delays were not more than 4-5 days.

Limited bargaining power due to significant competition in garment exports business – LCPL is a mid-sized player in the apparels market, which is characterised by intense competition from several unorganised and organised players in India, as well as overseas competitors from Bangladesh, Vietnam, Sri Lanka and China. This exerts pricing pressure on the company and keeps its profitability under check.

Vulnerability of profitability to fluctuations in raw material prices, exchange rates, export incentives – As exports comprise a major portion of LCPL's revenues, its profitability remains vulnerable to foreign exchange risks. However, LCPL hedges a portion of its exposure using forward covers, which mitigate the forex risk to an extent. The company is also eligible for incentives under the Duty Drawback Scheme and Rebate of State & Central Taxes and Levies (RoSCTL) Scheme from the Government of India for exporting its products. The total export incentive received by LCPL in FY2023 was 6% of its export revenue and 55% of its operating profits. Given the high share of export incentives, any adverse regulatory change may adversely impact its profit margins and would remain a key monitorable.

Liquidity position: Stretched

The liquidity position remains stretched owing to the high working capital-intensive nature of its business and moderate profits. This is evident from the nearly full utilisation of its working capital borrowings, with a 14-month average of 85% until September 30, 2023. While the company's cash and bank balances stood at Rs. 55.6 crore as on September 30, 2023, Rs. 28.6 crore is lien-marked as a collateral against additional working capital limits and Rs. 8.9 crore encumbered against its non-fund-based facility, limits its financial flexibility. Further, the bank statement analysis revealed a few instances of delay in cheque clearances of suppliers (upto 7 days) due to deficient funds. LCPL has debt repayment obligations of Rs. 1.0 crore in FY2024 and Rs. 12.6 crore in FY2025. It is also expected to incur capex of Rs. 20 crore in FY2024, towards maintenance capex and expansion of premises at Kanakpura, Karnataka, and Rs. 20 crore in FY2025 towards setting up additional lines at Dodaballapura factory, Karnataka, funded by internal accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a healthy and sustained improvement in the company's scale of operations and profits, resulting in an improvement in its liquidity profile and credit metrics.

Negative factors – The ratings could be downgraded if there is any sharp decline in the company's revenues or profits and/or any unanticipated debt-funded capex weaken its liquidity or coverage metrics. Specific credit metrics for ratings downgrade include a deterioration in the debt servicing coverage ratio (DSCR) to below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology of Textile (Apparels)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of LCPL

About the company

Laguna Clothing Private Limited (LCPL) was initially incorporated as a private limited company under the name of Laguna Clothing Private Limited in 2005, as a joint venture between Gruppo Tessile Monti, Italy and Aquarelle International Limited, Mauritius (a part of the CIEL Group). It was reconstituted as a limited liability partnership (LLP) in August 2018 between Aquarelle International Limited, Mauritius and Aquarelle Clothing Limited (a part of the CIEL Group). Its constitution was later changed again to a private limited company in FY2023. The company manufactures premium category shirts with its facilities located in Kanakapura and Dodaballapura in Karnataka, having an installed capacity to produce 24,000 pieces of shirts per day.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	337.6	598.7
PAT	15.2	26.2
OPBDIT/OI	8.0%	7.7%
PAT/OI	4.5%	4.4%
Total outside liabilities/Tangible net worth (times)	2.7	3.6
Total debt/OPBDIT (times)	3.1	4.3
Interest coverage (times)	7.6	6.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA

The company did not provide requisite information to ACUITE 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, ACUITE has reaffirmed the ratings at 'ACUITE A4+ (ISSUER NOT COOPERATING)' for Rs. 67.0 crore bank facilities of the company on September 25, 2023.

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
				Dec 18, 2023	Nov 10, 2022	-	-
1 Fund based, export packing credit facility	Long term	120.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
2 Non-fund-based, Letter of credit	Short term	52.00	-	[ICRA]A3	[ICRA]A3	-	-
3 Fund based, non-fund based, combined working capital limits	Long term/ Short term	35.00	-	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-
4 Term Loans	Long term	60.00	56.9	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based limits	Simple
Non-fund-based limits	Very simple
Fund based and non-fund-based, combined working capital limits	Simple
Term Loans	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	Fund based, packing credit facility	-	-	-	120.00	[ICRA]BBB- (Stable)
NA	Non-fund-based, Letter of credit	-	-	-	52.00	[ICRA]A3
NA	Fund based, non-fund based, combined working capital limits	-	-	-	35.00	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Term Loans	FY2023	NA	FY2028	60.00	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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