

March 07, 2024

Laguna Clothing Private Limited - Ratings downgraded to [ICRA]BB+/[ICRA]A4+; Outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term, fund based –packing credit limit	120.00	120.00	[ICRA]BB+; downgraded from [ICRA]BBB-; outlook revised to Negative from Stable
Short term, non-fund based letter of credit	52.00	52.00	[ICRA]A4+; downgraded from [ICRA]A3
Long term/Short term, fund based, and non-fund based, combined working capital limits	35.00	35.00	[ICRA]BB+/[ICRA]A4+; downgraded from [ICRA]BBB-/ [ICRA]A3; outlook revised to Negative from Stable
Long term –Fund Based –Term Loans	60.00	60.00	[ICRA]BB+; downgraded from [ICRA]BBB-; outlook revised to Negative from Stable
Total	267.00	267.00	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrades factor in weakened liquidity profile of Laguna Clothing Private Limited's (LCPL) on account of delay in receiving payment from customers. This is also reflected from recurring instances of overdue of less than 30 days in LCPL's packing credit facilities in the last couple of months. The customer payments have been affected primarily due to blockage of funds from one of the customers, shipping delays due to issues related to the Red Sea and delays in custom duty clearance. Apart from operational reasons, such instances of delays have also been due to procedural lapses in financial controls of the company as LCPL had sufficient funds but did not transfer the same to the designated account. While the management is working towards strengthening the company's monitoring systems, ICRA would evaluate the effectiveness of such measures over a longer timeframe.

The Negative outlook in the long-term rating reflects ICRA's opinion that LCPL's liquidity would remain under pressure in the near term until the operational issues highlighted above are resolved.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description: [Click here](#)

Liquidity position – Stretched

The liquidity position remains stretched owing to the 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 12-month average of 90% till January 31, 2024 and recurring instances of overdues of below 30 days in the packing credit facility. 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 is encumbered against its non-fund-based facility, which limit its financial flexibility. 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, funded by internal accruals.

Rating Sensitivities

Positive factors – The outlook would be revised to stable if the company is able to improve its working capital management and internal monitoring and control systems along with sustained improvement in the 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 or elongated working capital cycle further weakens its liquidity or coverage metrics. Further, ICRA could downgrade the ratings if the company is unable to maintain adequate internal monitoring and control systems. Specific credit metrics for ratings downgrade include a deterioration in TOL/TNW to above 3.0 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 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)

LCPL Standalone	FY2022	FY2023	9M FY2024*
Operating income	337.6	598.7	512.7
PAT	15.2	26.2	27.8
OPBDIT/OI	8.0%	7.7%	10.1%
PAT/OI	4.5%	4.4%	5.4%
Total outside liabilities/Tangible net worth (times)	2.7	3.6	3.0
Total debt/OPBDIT (times)	3.6	3.6	3.6
Interest coverage (times)	7.6	6.4	4.0

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore

Status of non-cooperation with previous CRA

The company did not provide requisite information to ACUTE 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, ACUTE has reaffirmed the ratings at 'ACUTE A4+ (Issuer Not Cooperating)' for Rs. 67.0-crore bank facilities of the company as on September 25, 2023.

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & Rating in		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 7, 2024	Dec 18, 2023	Nov 10, 2022		
1	Fund based, export packing credit facility	Long-term	120.00	-	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2	Non-fund-based, Letter of credit	Short-term	52.00	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3	-	-
3	Fund based, non-fund based, combined working capital limits	Long-term and short term	35.00	-	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-
4	Term loans	Long-term	60.00	56.9	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	-	-	-

Complexity level of the rated instrument

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 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: [Click Here](#)

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based, packing credit facility	-	-	-	120.00	[ICRA]BB+(Negative)
NA	Non fund based, Letter of Credit	-	-	-	52.00	[ICRA]A4+
NA	Fund based, non fund based, combined working capital limits	-	-	-	35.00	[ICRA]BB+(Negative)/ [ICRA]A4+
NA	Term loans	FY2023	NA	FY2028	60.00	[ICRA]BB+(Negative)

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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About ICRA Limited:

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