

March 26, 2024

Le Shark Global LLP: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|--|
| Long term/Short term- PLC/PCFC/FDBN/FDBP/FDBD | 18.00 | 18.00 | [ICRA]A- (Stable)/[ICRA]A2+; reaffirmed |
| Long term/Short term- PSCFC/FDBN/FDBD/FDBP | (18.00) ^ | (18.00) ^ | [ICRA]A- (Stable)/[ICRA]A2+; reaffirmed |
| Long term/Short term- Bank Guarantee | 0.50 | 0.50 | [ICRA]A- (Stable)/[ICRA]A2+; reaffirmed |
| Total | 18.50 | 18.50 | |

*Instrument details are provided in Annexure-1 ^ Sublimit post shipment credit

Rationale

The ratings reaffirmation reflects an improved performance of Le Shark Global LLP (Le Shark) in FY2023, characterised by a YoY 27% growth in revenues to Rs. 353 crore and an improvement in the operating margin to 24.7%. This was, however, accompanied with significant capital withdrawals by the partners, leading to a decline in its net worth. Moreover, the firm's revenues are expected to moderate in the current fiscal, which is likely to result in lower earnings. The ratings continue to draw comfort from the extensive experience of the partners in the textile industry and the firm's wide range of readymade garments in the women's wear and children's wear categories, which are compliant with the European standards. The ratings also consider its long association with multi-national clothing retail house, Hennes & Mauritz (H&M). The ratings continue to draw comfort from the firm's favourable financial risk profile, marked by a healthy profit margin, comfortable capital structure, strong debt protection metrics and comfortable return indicators due to a relatively asset-light model of operations.

The ratings, however, remain constrained by the high customer concentration risk as ~70% of the firm's garment sales were driven by H&M in FY2023, which exposes the limited liability partnership (LLP) to any demand contraction from the global retailer. However, Le Shark's association with Pepco from FY2022 diversified the risk to an extent. The ratings are further constrained by the susceptibility of its profitability to volatility in raw material prices (given the limited pricing power enjoyed with the established buyer) and foreign exchange rates. The ratings continue to factor in the exposure of Le Shark's performance to external risk factors such as regulations and duty structures across the markets. Further, being an LLP, it remains exposed to the risk of capital withdrawal by its partners, as witnessed in FY2023, which could impact its capital structure.

The Stable outlook reflects that Le Shark will continue to benefit from the long relationship with key customers, aiding in repeat orders.

Key rating drivers and their description

Credit strengths

Extensive experience of key partners spanning over three decades in apparel industry – The partners have an extensive experience of more than three decades in the readymade garments industry, which has enabled them to build strong relationships with various renowned players across the globe. Moreover, their knowledge and skill have enabled the firm to achieve a YoY technological upgradation, which facilitated the maintenance of a healthy operating margin.

Established relationship with H&M – Le Shark derives ~70% of its revenues from the export of garments to the overseas outlets of H&M, a Swedish multinational retail clothing company. H&M is present in more than 75 countries with retail stores

worldwide, e-commerce markets and has been associated with Le Shark for the past 15 years. With its long association, and rising domestic demand, Le Shark stands to gain in the medium term.

Healthy profitability, favourable capital structure, strong debt protection metrics and RoCE due to asset-light model of operations – The asset-light business operations have resulted in strong return indicators because of high operating profitability on a relatively lower capital employed. Le Shark's financial profile continues to remain favourable, aided by limited dependence on outside debt and its strong net worth position. The capital structure has remained comfortable with a gearing of ~0.2 times in FY2023. The coverage indicators, as reflected by OPBDITA/Interest, stood strong at 18.4 times and Total Debt/OPBDITA at 0.3 times as on December 31, 2023.

Credit challenges

High dependence on a single customer leads to concentration risk; exposed to any sharp demand contraction from H&M – Given the high concentration towards a single customer, the LLP is exposed to the risk of demand contraction from H&M. Nevertheless, the firm has added Pepco to its customer base, which is a renowned European chain of discount shops offering apparel for the entire family at an economical price. The addition of Pepco has supported revenues and offered customer diversification to an extent.

Susceptibility of margins to raw material price risks and foreign exchange rate fluctuations – The primary raw material used for manufacturing knitted fabric is cotton yarn, which is sourced from Tirupur, Tamil Nadu. Although the prices are reset on a quarterly basis depending on the yarn prices and forex rates, the firm might not be able to completely pass on the sudden increase in the same. Further, the firm is exposed to volatility in forex rates as only ~50% of its forex exposure is hedged, exposing its profitability to any adverse forex rate fluctuations.

Inherent risk of capital withdrawal by partners – Although the capital structure of the firm continues to remain comfortable, there have been significant capital withdrawals in the past due to the LLP constitution of the entity.

Exposed to stiff competition from foreign players enjoying higher economies of scale and lower costs/exchange fluctuations – Despite the established position of Le Shark as the readymade garment's exporter to H&M, it faces strong competition for H&M's tenders from many players located in low-cost manufacturing hubs in other Asian countries. As a result, its ability to strengthen its presence in the international market remains critical for its long-term growth.

Liquidity position: Adequate

The firm's liquidity position is expected to remain healthy, supported by steady earnings from operations, cash and liquid investments held and adequate unutilised lines of credit. Availability of free cash buffer, including cash reserves, liquid investments and unutilised working capital limits together stood at around Rs.12 crore as on February 29, 2024. The average utilisation of its fund-based limits over the past 12 months ending in February 2024 stood at ~60%. The firm did not have any long-term debt issuance as of February 2024, neither does it plan to raise the same in the near term. Its external liabilities are restricted to funding its working capital requirement. Further, the capex planned is expected to be met by internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the firm registers a substantial improvement in its revenues and earnings, supported by its customer diversification measures, which would enable Le Shark to strengthen its tangible net worth base.

Negative factors – A significant decline in the scale of operations, impacting the profitability or any substantial withdrawal of capital, resulting in a moderation in the net worth base, could lead to ratings downgrade. A specific metric that could lead to ratings downgrade include TOL/TNW of more than 1.5 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 | The ratings are based on the standalone financial statements of the rated entity. |

About the company

Le Shark Global LLP, a Tirupur-based firm, was formed to take over the business of Le-Shark Exports Pvt. Ltd., which is in the business of manufacturing and exporting readymade garments to only two clients, H&M, which has around 5,000 retail stores all over the world, and Pepco. Le Shark's products are manufactured across its two plants in Coimbatore (Tamil Nadu) and are exported to about 35 countries including Germany, Sweden, Spain, Canada, China among others. The firm has been promoted by Mr. Anil Shah, Mrs. Kiran Shah and Mr. Bharat Sadiwala, who manage the entire operations. Its head office is in Mumbai from where the administrative and financial activities are handled.

Key financial indicators (audited)

| Le Shark | FY2022 | FY2023 |
|--|--------|--------|
| Operating Income (Rs. crore) | 277.9 | 353.4 |
| PAT (Rs. crore) | 28.4 | 47.7 |
| OPBDITA/OI (%) | 19.0% | 24.7% |
| PAT (%) | 10.2% | 13.5% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.3 | 0.6 |
| Total Debt/OPBDITA (times) | 0.2 | 0.2 |
| Interest Coverage (times) | 28.8 | 22.7 |

Source: Le Shark

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; DSCR: Debt Service Coverage Ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | | Current rating (FY2024) | | | | Chronology of Rating History for the past 3 years | | | | | |
|---|--------------------------|-------------------------|---------|--------------------------|---|---|----------------------------|--------------|----------------------------|----------------------------|-------------------------|
| | | Instrument | Type | Amount rated (Rs. crore) | Amount outstanding as of Dec 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | | March 26, 2024 | March 09, 2023 | Jun 29, 2022 | - | Mar 30, 2021 | Oct 04, 2019 |
| 1 | PLC/PCFC /FDBN/FDBP/FDBD | Long Term/Short Term | 18.00 | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | |
| 2 | PSCFC/FDBN/FDBD /FDBP | Long Term/Short Term | (18.00) | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | |
| 3 | Bank Guarantee | Long Term/Short Term | 0.50 | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long term/Short term-PLC/PCFC/FDBN/FDBP/FDBD | Simple |
| Long term/Short term-PSCFC/FDBN/FDBD/FDBP | Simple |
| Long term/Short term- Bank Guarantee | Very 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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-------------------------|-----------------------------|-------------|---------------|--------------------------|-----------------------------|
| NA | PLC/PCFC/FDBN/FDBP/FDBD | - | - | - | 18.00 | [ICRA]A- (Stable)/[ICRA]A2+ |
| NA | PSCFC/FDBN/FDBD/FDBP | - | - | - | (18.00) | [ICRA]A- (Stable)/[ICRA]A2+ |
| NA | Bank Guarantee | - | - | - | 0.50 | [ICRA]A- (Stable)/[ICRA]A2+ |

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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Branches



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