

December 05, 2024

Laguna Clothing Private Limited: Ratings reaffirmed

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+ (Negative); reaffirmed
Short term - non-fund based letter of credit	52.00	52.00	[ICRA]A4+; reaffirmed
Long term/ Short term - fund based, and non-fund based - combined working capital limits	35.00	35.00	[ICRA]BB+ (Negative)/ [ICRA]A4+; reaffirmed
Long term – Fund Based – Term Loans	60.00	60.00	[ICRA]BB+ (Negative); reaffirmed
Total	267.00	267.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings considers the stretched liquidity position of Laguna Clothing Private Limited (LCPL), as evident from the nearly full utilisation of its working capital borrowings, given the high working capital intensity of operations. The company's financial profile also remains moderate with the total debt vis-à-vis the operating profit of 4.2 times and the total outside liabilities vis-à-vis the tangible net worth of 2.9 times as on March 31, 2024. The company's profit 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, or 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.

ICRA also notes a few instances of overdue of less than 30 days in LCPL's packing credit facilities, primarily on account of delay in receiving payment from customers. ICRA also notes that some of the delays are due to operational reasons like delay in fund transfer from one account to another, for which the company has taken some steps to strengthen its financial controls in H1 FY2025 and is in the process of augmenting it further. ICRA will continue to monitor the same.

The ratings continue to derive comfort from LCPL's 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, further strengthening LCPL's export customer base. The company reported revenues of Rs. 304 crore in H1 FY2025, supported by elevated realisations despite lower volume offtake. LCPL also has a healthy order book of Rs. 250 crore as on September 30, 2024, which is expected to be fulfilled over the next four months, which lends adequate revenue visibility. While steady sales of premium cotton category in FY2024 resulted in stable gross contribution margins despite the operational challenges witnessed by the company due to the onset of Red Sea crisis, lower reliance on outsourcing due to higher in-house production with increased production lines and lower sales commission expenses paid to the parent entity improved its operating profit margin (OPM) to 8.5% in FY2024. Going forward, the overall operational performance is expected to improve with enhancement of production lines and a higher scale of operations in the medium-to-long 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 presence across various segments such as textiles, hotels and resorts, healthcare, among others. The textile division generates 45-55% of the Group's total revenues and LCPL generates 50-60% 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, resulting 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, for 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 and international players to procure cotton fabric.

Healthy order book position lends revenue visibility – Despite demand headwinds prevailing in the export market, particularly in the western and European markets owing to uncertain economic conditions, the company's revenues rose 10% YoY to Rs. 657 crore in FY2024. This was supported by the company's elevated realisations and sustained healthy demand from its key premium customers. The revenue momentum sustained in H1 FY2025, with the company reporting revenue of Rs. 304 crore. The company's unexecuted order book size of Rs. 250 crore, as on September 30, 2024, is expected to be completed within the next four months, which lends adequate revenue visibility for FY2025.

Credit challenges

Moderate financial profile and stretched liquidity position – The company's debt level remained high due to working capital intensive nature of operations. This coupled with moderate profitability levels resulted in subdued leverage and debt protection metrics with total outside liabilities vis-à-vis the tangible net worth of 2.9 times as on March 31, 2024 and total debt vis-à-vis the operating profit of 4.2 times as on March 31, 2024. The liquidity position of the company also remains stretched, as evident from the nearly full utilisation of its working capital borrowings, with a 12-month average of 86% till September 30, 2024.

Working capital intensive nature of operations – The working capital intensity of the company, reflected by the net working capital vis-à-vis the 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 100-120 days to customers and high inventory holding requirement of the business. While the company receives credit period of 65-70 days from its suppliers, it holds 60-65 days of inventory on an average.

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 companies from Bangladesh, Vietnam, Sri Lanka and China. This exerts pricing pressure on the company and keeps its profitability under check.

Vulnerability of profitability to fluctuation 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 fluctuation 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 FY2024 was 6% of its export revenue and 62% 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 12-month average of 86% till September 30, 2024. The company's cash and bank balances stood at Rs. 53.4 crore as on March 31, 2024. However, Rs. 28 crore is lien-marked as a collateral against additional working capital limits and Rs. 15.5 crore is encumbered against its non-fund-based facility, which limit its financial flexibility. There have been few instances of delays in packing credit facility due to delay in collection from customers. However, the delays were not more than 30 days. LCPL has debt repayment obligations of Rs. 10.9 crore in FY2025 and Rs. 14.5 crore in FY2026. It is also expected to incur capex of Rs. 16 crore in FY2025 towards maintenance capex, additional line at Dodaballapura facility and expansion of premises at Kanakpura, Karnataka, 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)

	FY2023	FY2024
Operating income	598.2	657.4
PAT	26.2	26.6
OPBDIT/OI	7.7%	8.5%
PAT/OI	4.4%	4.0%
Total outside liabilities/Tangible net worth (times)	3.6	2.9
Total debt/OPBDIT (times)	4.3	4.2
Interest coverage (times)	6.4	3.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA

The company did not provide requisite information to ACUITE Ratings & Research Limited 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	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	05-Dec-2024	Date	Rating	Date	Rating	Date	Rating
Long term / short term-others-fund based/ non fund based	Long Term/ Short Term	35.00	[ICRA]BB+ (Negative)/ [ICRA]A4+	18-DEC-2023	[ICRA]BBB- (Stable)/ [ICRA]A3	10-NOV-2022	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-
			-	07-MAR-2024	[ICRA]BB+ (Negative)/ [ICRA]A4+	-	-	-	-
Long term-export packing credit-fund based	Long Term	120.00	[ICRA]BB+ (Negative)	18-DEC-2023	[ICRA]BBB- (Stable)	10-NOV-2022	[ICRA]BBB- (Stable)	-	-
			-	07-MAR-2024	[ICRA]BB+ (Negative)	-	-	-	-
Short term-letter of credit-non fund based	Short Term	52.00	[ICRA]A4+	18-DEC-2023	[ICRA]A3	10-NOV-2022	[ICRA]A3	-	-
			-	07-MAR-2024	[ICRA]A4+	-	-	-	-

Long term-term loan-fund based	Long Term	60.00	[ICRA]BB+ (Negative)	18-DEC-2023	[ICRA]BBB- (Stable)	-	-	-	-
			-	07-MAR-2024	[ICRA]BB+ (Negative)	-	-	-	-

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]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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Branches



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