

August 03, 2017

Magnolia Martinique Clothing Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	9.00	[ICRA]BB (Stable); Reaffirmed
Short Term-Fund-based	19.00	[ICRA]A4; Reaffirmed
Short Term-Unallocated	1.00	[ICRA]BB (Stable)/A4; Reaffirmed
Total	29.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) and short term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 29.00 crore Bank facilities of Magnolia Martinique Clothing Private Limited (MMC)¹. The outlook on the long-term rating is 'stable'.

Rationale

ICRA's ratings reaffirmation takes into account MMC's satisfactory operational and financial performance as reflected in stable operating margins and growth in top-line by ~17% supported by 13% sales volumes and remaining by higher realisations. The long-term debt levels of the company have increased in FY2017 on account of the ongoing ~Rs. 13-crore capital expenditure on construction of manufacturing facility, which was financed through the Rs. 9-crore term loans. The estimated completion of the new building has been delayed by one year while the scheduled repayments remain at original schedule. Further, the company is planning the second phase of capital expenditure for expansion involving investment of Rs 17 crore. The debt coverage indicators are likely to moderate going forward with the availment of incremental debt.

The ratings continue to be supported by the extensive experience of the promoters in the garments export business, strong design and merchandise expertise as well as an established customer base. The order book of MMC remains satisfactory, which offers some revenue visibility. The ratings are, however, constrained due to limited bargaining power with the customers due to an intensely competitive industry, vulnerability of profitability to adverse movements in raw-material prices and foreign exchange rates. The ratings continue to remain constrained on account of high customer concentration and geographical concentration risks, although the concentration is gradually reducing with the company expanding its customer base across new geographies and customers.

MMCs ability to sustain its revenue growth along with profitability in the backdrop of an increase in debt levels will be critical for servicing its debt obligations and will be the key rating sensitivities. Construction of the new building and the resultant savings in the rental expenses will be the key monitorables.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Experience of promoters in the garments exports industry spanning over 20 years** - Incorporated in 2008 for the manufacturing and export of woven and knitted garments for women and kids. The promoters are engaged in the business from more than 20 years.
- **Established relationship with reputed clientele as evident in repeat orders** - Most of the sales of the company are through export to leading retailers and apparels brands including Tommy Hilfiger Europe , Lilly Pulitzer , Topshop, Anthropology, etc
- **Low counterparty credit risks as majority of sales are either backed by letter of credit from customers or covered under ECGC scheme** -. The company has an ECGC cover for 99% of its orders which helps to mitigate the counter party risk

Credit weaknesses

- **Total debt is likely to increase on account of debt funded capex on construction of building however debt coverage indicators are likely to remain adequate-**. MMC is constructing a new building and will shift the manufacturing from two units to the new owned unit. The total investment in the project is estimated to be Rs. 30 crore, which is being financed through Rs. 24 crore of term loan and remaining through unsecured loans from promoters of Rs. 4 crore. Hence, the total debt is likely to increase on account of the capex, leading to sizeable repayments in the near future.
- **Vulnerability of profitability to any adverse fluctuation in raw material prices** - The margins of the company are largely affected by the raw material price fluctuation which in turn affects the sales realisations. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins, considering the limited ability to pass on the price hike owing to high competitive intensity. The price fluctuations also impact the realisations of the company.
- **Profitability exposed to forex rate movements in the absence of any firm hedging policy-** The Company is exposed to foreign exchange fluctuation given that most of the sales are through exports. The company derived ~70% of its revenues in Euro followed by USD and GBP. The company follows partial hedging policy to mitigate its foreign exchange fluctuation risk. The company has a practice of taking a forward cover of ~Rs. 10 crores on a rotation basis and it keeps the remaining position unhedged. However, part of the profitability exposed to forex rate movements.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

MMC manufactures and exports woven and knitted garments for women. Originally incorporated as Rakesh Mohan Electricals Pvt. Ltd. in July 2005, MMC commenced commercial operations in 2007-08 after it was taken over by its current promoters, Mr Siddharth Mohan and Ms. Neelam Mohan. The operations under the other companies, namely Magnolia Blossom and Magnolia Clothing Pvt. Ltd, were consolidated under this entity and its name was changed to MMC in February 2008. At present, the company has three manufacturing units (all leased) in Noida, Uttar Pradesh with a total installed capacity of manufacturing 16.50 lakh garment pieces per annum.

In FY2017, on a provisional basis, the company reported a net profit of Rs. 2.17 crore on an operating income of Rs. 126.22 crore, as compared to a net profit of Rs. 2.16 crore on an operating income of Rs. 108.30 crore in the previous year.

Key Financial Indicators

	FY2016	FY2017 (Provisional)
Operating Income (Rs. crore)	108.30	126.22
PAT (Rs. crore)	2.16	2.17
OPBDIT/ OI (%)	5.45%	6.06%
RoCE (%)	9.48%	11.09%
Total Debt/ TNW (times)	1.32	1.38
Total Debt/ OPBDIT (times)	4.95	4.59
Interest coverage (times)	3.72	3.58
NWC/ OI (%)	26%	25%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					August 2017	August 2016	August 2015	October 2014	
1	Fund-based Limits	Long Term	9.00	9.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	
2	Short Term-Fund-based	Short Term	19.00	19.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	
3	Short Term-Unallocated	Long/Short Term	1.00	1.00	[ICRA]BB (Stable)/A4	[ICRA]BB (Stable)/A4	[ICRA]BB (Stable)/A4	[ICRA]BB (Stable)/A4	

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 www.icra.in

**Annexure-1
Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund-based Limits	-	-	FY2023	9.00	[ICRA]BB (Stable)
	Short Term-Fund-based				19.00	[ICRA]A4
	Short Term-Unallocated				1.00	[ICRA]BB (Stable)/A4

Source: the company

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About ICRA Limited:

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