



SMERA RATINGS LIMITED

Laguna Clothing Private Limited (Laguna)**Rating
Rationale****September 04, 2014**

Facilities	Amount (Rs. Crore)	Rating
PC/PCFC/FDB/FBE/BRD	25.00*	SMERA A2+ (Assigned)
PCFC	10.00#	SMERA A2+ (Assigned)
ILC/FLC	8.00	SMERA A2+ (Assigned)
BG	1.00	SMERA A2+ (Assigned)
Forward Purchase Contract	1.60	SMERA A2+ (Assigned)

*Includes sublimit of PC/PCFC to the extent of Rs.15.00 crore

#Fully interchangeable with export facility for purchase/negotiation of document against payment, export facility for purchase/negotiation of document against acceptance, pre-shipment loan against export, import documentary credit and import deferred payments credits.

SMERA has assigned a rating of '**SMERA A2+**' (read as **SMERA A two plus**) to the abovementioned bank facilities of Laguna Clothing Private Limited (Laguna). The rating is supported by the company's established track record of operations and experienced management. The rating draws comfort from the strong business synergies derived by the company from its associate entities. The rating is also supported by the company's healthy revenue growth, reputed clientele and above-average financial risk profile. However, the rating is constrained by the company's exposure to customer and geographical concentration risks amidst intense competition in the readymade garments industry.

Laguna, incorporate in 2005, is a Bengaluru-based company established as a joint venture between Gruppo Tessile Monti SpA (Italy) and Aquarelle International Limited (Mauritius). Laguna is engaged in manufacturing of premium formal shirts for men. The company's promoter group has an established track record of more than four decades in manufacturing of fabrics and shirts. Laguna benefits from the procurement and marketing synergies derived from its associate entities. The company's revenues have grown at a healthy compound annual growth rate (CAGR) of ~25 per cent over the last four years. Laguna caters to the premium segment of men's apparels. The company has established relations with various reputed customers including Dressmann, Charles Tyrwhitt, Thomas Pink, Hugo Boss and Marks & Spencers.

Laguna's above-average financial risk profile is reflected in tangible net worth of Rs.61.80 crore and overall leverage of 0.55 times as on March 31, 2014. Moreover, the company has no long-term debt as on March 31, 2014. Laguna's strong debt protection metrics are evidenced by interest coverage ratio of 16.51 times in FY2013-14 (refers to financial year, April 01 to March 31). The company's net cash accruals stood at Rs.20.35 crore in FY2013-14. Laguna's utilisation of working capital limit is moderate at ~85 per cent during February 2014 to July 2014.

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Laguna is exposed to customer and geographical concentration risks arising from high dependence on orders received from two customers based in Europe. The company faces intense competition from several players in the readymade garments industry. Laguna's profit margins are exposed to fluctuations in foreign exchange rates; however, the company has a defined hedging policy to mitigate forex fluctuation risk.

Rating sensitivity factors

- Geographical diversification
- Expansion of customer base
- Changes in business risk profile

About the company

Laguna, incorporated 2005, is a Bengaluru-based company established as a joint venture between Gruppo Tessile Monti, Italy and Aquarelle International Limited, Mauritius (part of CIEL Textile Limited).

Laguna is engaged in manufacturing of premium shirts for men. The company's manufacturing unit is located in Kanakpura (Karnataka). Laguna has installed eight manufacturing lines with production capacity of 15,000 shirts per day.

For FY2013–14, Laguna reported profit after tax (PAT) of Rs.16.91 crore on operating income of Rs.224.24 crore, as compared with PAT of Rs.17.93 crore on operating income of Rs.185.70 crore in FY2012–13. Further, the company reported PAT of Rs.9.73 crore on operating income of Rs.79.59 crore during April 2014 to June 2014. Laguna's net worth stood at Rs.61.80 crore as on March 31, 2014, as compared with Rs.45.04 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Sanjay Kher Vice President, Sales – Corporate Ratings Tel : +91-22-67141193 Cell: +91-9819136541 Email: sanjay.kher@smera.in Web: www.smera.in	Mr. Ashutosh Satsangi Vice President – Operations Tel: +91-22-67141107 Email: ashutosh.satsangi@smera.in	Tel: +91-22-67141128 Email: ratingdesk@smera.in

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