

Press Release

Laguna Clothing Private Limited

14 March, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 60.60 Cr
Short Term Rating	SMERA A2+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the short-term rating of '**SMERA A2+** (read as **SMERA A two plus**) on the Rs. 51.00 crore bank facilities of Laguna Clothing Private Limited (LCPL). Further, SMERA has assigned '**SMERA A2+** (read as **SMERA A two plus**) on the Rs. 9.60 crore bank facilities.

The ratings continue to draw comfort from the strong market position of the company and extensive experience of its promoters in the readymade garment (RMG) industry. The rating also factors LCPL's robust financial risk profile marked by healthy net worth and strong debt protection metrics. However, the aforementioned strengths are partially offset by company's exposure to intense competition in the RMG industry and susceptibility of its profitability to volatility in raw material prices and foreign exchange rate.

LCPL incorporated in 2005 is a Bangalore-based company established as a joint initiative between Gruppo Tessile Monti (Italy) and Aquarelle International Limited (Mauritius). The company is engaged in the manufacture of premium shirts (formal and semi-formal) for men. The manufacturing unit of the company is located in Kanakpura, Karnataka and derives around 83 percent of its revenue from exports to USA and Europe while remaining 17 percent is derived from the domestic market. The company procures fabric from domestic mills of its associate company and other local suppliers.

List of key rating drivers and their detailed description

Strengths:

Established presence and extensive experience of the promoters in the textile industry.

The company is engaged in manufacturing of premium formal shirts for more than a decade. Further, the company is promoted by Gruppo Tessile Monti (GTM), Italy which holds 50 percent stake and Aquarelle International Limited (AIL) Mauritius (part of CIEL Textile Limited) which holds 49.93 percent stake in LCPL. GTM has presence of more than 100 years in the textile industry and AIL has more than two decades of experience in manufacturing of shirts. The other associate companies including Tessitura Monti India Private Limited and Tessitura Monti SpA supplied around 52 percent of the raw material requirement of LCPL. The company has established relation with reputed clients like Hugo Boss, Marks & Spencers, Ted Baker, Thomas Pink, Charles Tyrwhitt, TM Lewin etc. located in countries like United Kingdom, USA, Spain, Sweden etc. Further, the parent company Aquarelle International Limited (Mauritius) provides marketing support which it is paid marketing fees by LCPL.

SMERA believes that the extensive experience of the promoters in the readymade garment industry will strengthen the business risk profile over the near to medium term.

Healthy financial risk profile

The tangible networth of the company continues to remain healthy as same stood at Rs. 104.81 crore as on 31st March, 2017 as against Rs. 109.12 crore in the previous year; notwithstanding high amount of dividend paid out during FY 2016-17. The gearing continues to remain healthy at 0.25 times as on 31st March, 2017 as against 0.17 times in the previous year. The total debt of Rs. 26.28 crore as on 31st March, 2017 only includes short term borrowings. Further the company has strong debt protection metrics with interest coverage ratio at 26.28 times for FY 2016-17 as against 23.22 times in the previous year. The company does not have any long term borrowings

as on date. Further, the company does not have any ongoing or future debt funded capex plan; hence the financial risk profile is expected to remain healthy going forward. The total outside liabilities stood at 0.71 times as on 31st March, 2017 as against 0.56 times in the previous year. The tangible networth; the decline in networth is mainly. Going forward, SMERA expects the overall financial metrics of the company to remain comfortable in the absence of major debt funded capex plan and moderate working capital requirements.

Comfortable liquidity position

The company has a comfortable liquidity position with average working capital credit limit utilisation at 69.42 percent for the last six months ended on December, 2017. Further, the working capital cycle (WCC) days has improved to 77 days in FY 2017 from 84 in FY 2016. Current ratio stands at 2.02 times in FY 2017 as against 2.24 times for FY 2016. The robust cash accruals from operations coupled with modest capital expenditure requirement over the near to medium term will translate to a significant portion of the accruals to be utilised for working capital purposes.

Weaknesses:

Susceptibility of revenue to off-take by key clients

LCPL is supplying to key clients including Hugo Boss, Marks & Spencers, Ted Baker, Thomas Pink, Charles Tyrwhitt, TM Lewin etc. The top 10 customers account for around 77 percent of the total revenue for FY 2017 and are who are well known brands. However, any changes in the end customer preferences or shifts to other brands can impact the revenues of these layers which in turn will affect the top line growth of LCPL.

Susceptibility of margins to volatility in raw material prices and foreign exchange rates

The major raw material procured by the company is cotton fabric which is being procured from the domestic mills owned by the Italian associate companies and also from other suppliers in the domestic market. The raw material cost constitutes around 56 to 55 percent of the total sales. Any change in the raw material price is likely to impact the profitability margins. However, the above mentioned risk is mitigated to certain extent as the entire procurement and production policies are backed by the orders received.

Since large portion of the revenue is denominated in foreign currency and other cost & expense are mostly in Indian rupee, the operations of the company is exposed to fluctuation in foreign exchange rate. Also, the currency rate movements of the competing countries including Vietnam, Bangladesh, China etc. is likely to impact the operations of the Indian textile exporters.

Thus, the company mitigates raw material fluctuation risk to some certain extent. Further, profitability is also susceptible to the volatility in foreign exchange rates in the absence of adequate hedging mechanism.

Presence in a highly competitive and fragmented textile industry

The company is exposed to intense competition prevalent in the highly fragmented Indian textile industry. The company also faces stiff competition in domestic and overseas market from other up and coming nations which attract more business because of their lower production costs, ease-of-doing business and availability of cheap labour.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of LCPL for arriving at the rating.

About the Rated Entity -Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	316.06	278.99	295.80
EBITDA	Rs. Cr.	42.97	33.61	40.91
PAT	Rs. Cr.	27.52	22.33	25.21
EBITDA Margin	(%)	13.60	12.05	13.83
PAT Margin	(%)	8.71	8.00	8.52
ROCE	(%)	32.13	27.99	37.77
Total Debt/Tangible Net Worth	Times	0.25	0.17	0.20
PBDIT/Interest	Times	26.28	23.22	22.86
Total Debt/PBDIT	Times	0.58	0.51	0.41
Gross Current Assets (Days)	Days	132	144	121

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
04 Sept, 2014	PC/PCFC/FDB/FBE/BRD	Short Term	25.00*	SMERA A2+ (Assigned)
	Packing Credit in foreign Currency	Short Term	10.00#	SMERA A2+ (Assigned)
	Letter of Credit	Short Term	8.00	SMERA A2+ (Assigned)
	Forward Purchase Contract	Short Term	1.60	SMERA A2+ (Assigned)
	Bank Guarantee	Short Term	1.00	SMERA A2+ (Assigned)
26 Aug, 2015	PC/PCFC/FDB/FBE/BRD	Short Term	25.00*	SMERA A2+ (Reaffirmed)
	Packing Credit in foreign Currency	Short Term	10.00#	SMERA A2+ (Reaffirmed)
	Letter of Credit	Short Term	8.00	SMERA A2+ (Reaffirmed)
	Forward Purchase Contract	Short Term	1.60	SMERA A2+ (Reaffirmed)
	Bank Guarantee	Short Term	1.00	SMERA A2+ (Reaffirmed)
04 Nov, 2016	PC/PCFC/FDB/FBE/BRD	Short Term	35.00 (enhanced from Rs. 25.00 crore)	SMERA A2+ (Reaffirmed)
	Packing Credit in foreign Currency	Short Term	15.00# (enhanced from Rs. 10.00 crore)	SMERA A2+ (Reaffirmed)
	Letter of Credit	Short Term	8.00	SMERA A2+ (Withdrawn)
	Forward Purchase Contract	Short Term	1.60	SMERA A2+ (Reaffirmed)
	Bank Guarantee	Short Term	1.00	SMERA A2+ (Reaffirmed)

*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

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
PC/PCFC/FDB/FBE/BRD	Not Applicable	Not Applicable	Not Applicable	35.00	SMERA A2+ (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00 [^]	SMERA A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A2+ (Reaffirmed)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	9.60	SMERA A2+ (Reaffirmed)

[^] Fully interchangeable with export facility for purchase/negotiation of document against payment, export facility for purchase/negotiation of document against acceptance and pre-shipment loan against export. Further, it includes sublimit import documentary credit and import deferred payments credits to the extent of Rs. 12.00 crore.

Note on complexity levels of the rated instrument:

<https://www.smerra.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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