Press Release

Carlton Overseas Private Limited

September 11, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 27.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs. 27.00 crore bank facilities of Carlton Overseas Private Limited (COPL). The outlook is **'Stable'**.

The Delhi-based, COPL was incorporated in 1993 by Mr. Baljit Virk as an exporter of leather footwear. In 1996- 97, the company started its own manufacturing unit at Khandsa Village in Gurgaon. In 2004, the company entered into the retail segment in India by opening up 14 retail outlets in Delhi, Gurgaon; Ludhiana, Amritsar, Mohali, Jalandhar in Punjab; Ambala in Haryana and Chandigarh. COPL is engaged in the manufacturing trading and export of leather footwear and trading of other leather accessories such as handbags among others. Currently, COPL has 2 manufacturing units- one in Gurgaon and one in Baddi with a manufacturing capacity of 3 lac pieces per annum and 1.5 lac pieces per annum respectively.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of COPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  COPL was incorporated in 1993 by Mr. Baljit Virk. The day to day operations are handled by Mr. Baljit Virk, Mr. Carl Virk and Mr. Jay Virk who have been associated with the leather footwear and accessories industry from the past ~50, ~25 and ~20 years respectively. Vast experience of the Directors has helped them to develop a rich understanding of the domestic as well as international markets. The company is currently selling its products in the domestic market under a well-established brand name 'Carlton London' which gives them an edge over their competitors. Acuité believes that established track record of operations and Director's extensive experience will help COPL to maintain a healthy relationship with its customers and suppliers.

- **Healthy financial risk profile**
  COPL has a healthy financial risk profile marked by healthy net worth of Rs.31.09 crore as on March 31, 2018 (Provisional) against Rs.23.48 crore as on March 31, 2017. The improvement in net worth is attributable to healthy accretion of reserves over the period. The gearing stood low at 0.56 times as on March 31, 2018 (Provisional) against 0.61 times as on March 31, 2017. The total debt as on March 31, 2018 (Provisional) stood at Rs.17.34 crore including Rs.1.56 crore of long term loan from the bank and other parties and Rs.15.78 crore of short term borrowing from the bank. The net cash accruals stood moderate at Rs.6.91 crore in FY2018 (Provisional) against a debt obligation of Rs.0.37 crore. The interest coverage ratio stood healthy at 6.32 times in FY2018 (Provisional) against 4.94 times in the previous year. The total outside liabilities to total net worth ratio stood at 1.16 times as on March 31, 2018 (Provisional) against 1.40 times as on March 31, 2017. DSCR stood at 2.43 times for FY2018 (Provisional) against 2.28 times for FY2017. Acuité believes that the company will be able to sustain a healthy financial risk profile on the back of stable revenue growth and no major capex plan in the near to medium term.

- **Improvement in operating margins**

COPL's operating margins have improved Y-O-Y from FY2016 to FY2018 (Provisional). The operating margins for FY2018 (Provisional) stood at 14.10 percent as against 8.72 percent in FY2017 and 4.64 percent in FY2016. The improvement in the operating margin is on account of higher margins generated from the domestic segment, whose share in revenue has increased from ~25 percent in FY2016 to ~63 percent in FY2018 (Provisional). A strong brand presence in the domestic market has also contributed in generating better margins in the domestic market.

- **Reputed clientele**

COPL generates its revenue from two business segments in the domestic retail market: Shop in Shop concept (where Carlton London is positioning itself by opening new shop in shop with Future Group (Central) Shopper Stop, Shoe Three, V Retail) and through leading e-commerce companies (Myntra, Jabong, Flipkart, Amazon & Reliance Retail Limited). Further in the exports market, COPL caters to reputed brands such as Zara, H & M, River Island, to name a few.

Weaknesses

- **Declining revenue trend**

The revenue of the company has declined for the period under study from FY2016 to FY2018. The revenue for FY2018 (Provisional) stood at Rs.70.07 crore as against Rs.80.02 crore in FY2017 and Rs.85.36 crore in FY2016. This is on account of high competition faced from other countries like China, Vietnam, who are able to manufacture the products at a much cheaper cost which resulted in low demand in the European market. Although, this risk has been mitigated by diversifying their revenue in the domestic segment. Further, Acuité believes that the company will be able to improve its revenue backed by strong brand presence in the domestic market and opening of new retail outlets in reputed malls.

- **Working capital intensive operations**

COPL's working capital cycle is intensive marked by high Gross Current Assets (GCA) of 260 days in FY2018 (Provisional) as against 177 days in FY2017. This is dominated by increase in debtor and inventory days to 137 days and 122 days for FY2018 (Provisional) as against 94 days and 75 days for FY2017. Increase in inventory days is attributable to an increase in domestic retail business for which COPL has to maintain a minimum of 3 months inventory. Further, the company has also altered its debtor's policy from sales or return in 30 days where the payment was received within 15 days of actual sales and the customer could return unsold goods of more than 6 months to a credit period of 90 days (90 days period starts from the goods reaching at customer's warehouse which also takes around 20 days) with no return policy.

- **Intense competition**

COPL is associated with the leather footwear industry. This industry is marked by presence of various organised and unorganised players from the domestic as well as the international market. Thus, Acuité believes that COPL faces intense competition in the footwear industry and improvement in revenue with stable operating margins will be a key rating sensitivity.

Outlook: Stable

Acuité believes that COPL will maintain a 'Stable' outlook over the medium term on account of its experienced management and established presence in the leather industry. The outlook may be revised to 'Positive' if the company registers significant growth in operations while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative', in case the company registers significant decline in operations or capital structure on account of larger-than-expected working capital requirements. Any large, debt-funded capital expenditure undertaken by the company may entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	70.07	80.02	85.36
EBITDA	Rs. Cr.	9.88	6.98	3.96
PAT	Rs. Cr.	5.33	3.45	2.07
EBITDA Margin	(%)	14.10	8.72	4.64
PAT Margin	(%)	7.60	4.31	2.43
ROCE	(%)	22.21	17.88	11.42
Total Debt/Tangible Net Worth	Times	0.56	0.61	0.67
PBDIT/Interest	Times	6.32	4.94	3.91
Total Debt/PBDIT	Times	1.59	1.82	2.70
Gross Current Assets (Days)	Days	260	177	125

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

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3 / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.25	ACUITE A3
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A3

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