

Press Release

Laguna Clothing LLP



July 05, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuité has assigned the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs. 50.00 crore bank facilities of Laguna Clothing LLP. The outlook is '**Stable**'.

Bangalore-based Laguna Clothing LLP (LCLLP) was reconstituted into a Limited Liability Partnership from a Private Limited company in August 2018. Laguna Clothing Private Limited was incorporated in 2005 as a joint initiative between Gruppo Tessile Monti (Italy) and Aquarelle International Limited (Mauritius). It is engaged in the manufacturing of premium shirts (both formal and semi-formal). The manufacturing unit is located in Kanakpura, Karnataka and has an installed capacity of producing 3.6 million units per annum and is currently operating at ~ 90 per cent of the capacity. The firm has plans for increasing the capacity to 7.2 million units per annum and is in process of setting up a manufacturing unit in Ranchi. LCLLP derives around 80-90 percent of its revenues from exports to USA, UAE, Denmark, France and other European countries to groups like Best Seller, Polo Ralph Lauren, Thomas Pink, Hackett Limited, TM Iewin, Charles Tyrwhitt, Dressmann – AB among others.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of LCLLP to arrive at the rating.

Key Rating Drivers

Strengths

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

The firm has been engaged in the manufacturing of premium men's shirts for more than a decade. Further, LCLLP is promoted by Gruppo Tessile Monti (GTM), Italy which holds 50 per cent stake and Aquarelle International Limited (AIL) Mauritius (part of CIEL Textile Limited) which holds the balance 50 per cent stake in LCLLP and is currently managed by Mr. Sarbajit Ghose and Mr. Rajesh Kumar.

The GTM group globally maintains directly and indirectly, a work force of approximately 2500 employees in five textile mills, of which two in Italy, two in Czech Republic and one in India, and in the three garmenting units. It has a portfolio of more than 1200 clients in more than 100 countries. GTM has a presence of more than ten decades while AIL has more than two decades of experience in the textile industry.

Extensive experience of the group has helped LCLLP establish healthy relations with reputed clients like Best Seller (Denmark), Dressmann (Norway), Polo Ralph Lauren, Thomas Pink, Charles Tyrwhitt, TM Lewin, Dillard's Stores Services Inc etc. located in countries like United Kingdom, USA, Spain, Sweden etc and Benetton India Private Limited, Tommy India to name a few. The firm has a healthy order book of Rs. 110 crore. Acuité believes that the extensive experience of the promoters in the readymade garment industry and the well-established track of operations will continue to strengthen the business risk profile of LCLLP over the near to medium term.

• Healthy financial risk profile

LCLLP has a healthy financial risk profile marked by healthy net worth, low gearing and comfortable debt protection measures. The tangible networth continues to remain healthy as same stood at Rs. 105.54 crore as on 31st March, 2019 (Provisional) as against Rs. 93.49 crore in the previous year; notwithstanding high amount of dividend pay outs during FY 2017 and FY2018. The gearing continues to remain comfortable at 0.35 times as on 31st March, 2019 (Provisional) as against 0.29 times in the previous year. The total debt of

Rs. 36.83 crore as on 31st March, 2019 (Provisional) pertains to short term working capital borrowings only. Further the interest coverage ratio stood at 22.32 times for FY 2019 (Provisional) as against 13.44 times in the previous year. The TOL/ TNW ratio stood at 0.99 times as on 31st March, 2019 (Provisional) against 0.94 times in the previous year. The net cash accruals for FY2019 (Provisional) stood healthy at Rs. 30.18 crore. Acuite believes that the debt protection metrics will continue to remain healthy over the medium term on account of healthy revenue visibility, stable operating margins and absence of any major debt funded capex.

Weaknesses

• Working capital intensive operations

The firm has working capital intensive operations marked by GCA days of 176 for FY2019 (Provisional) against 175 for FY2018. This is mainly on account of high inventory holding period of 85 days against 89 days in PY. The receivable collection period stood at 67 days in FY2019 (Provisional) against 60 days in PY. Further, the working capital limits remain almost fully utilized. Acuite believes that in view of the working capital intensive operations, elongation in working capital cycle will require additional funding support to maintain a stable liquidity profile.

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

The major raw material procured by the firm 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 firm is exposed to fluctuation in foreign exchange rate.

Liquidity Position:

Liquidity profile of the firm is adequate marked by healthy cash accruals of Rs.30.18 crore during FY19 (Provisional) against which there are no debt repayment obligations. However, the working capital limits of the firm are almost fully utilized. The current ratio stood at 1.77 times as on March 31, 2019 (Provisional). Acuite believes that the firm will continue to benefit over the medium term on account of its established position.

Outlook: Stable

ACUITE believes that the outlook for LCLLP will remain 'Stable' over the medium term on account of its promoter's extensive industry experience, reputed clientele, healthy order book and healthy financial risk profile. The outlook may be revised to 'Positive' if the firm registers higher than expected revenue growth while maintaining its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve the scalability amidst intense competition in the area of operation or if financial risk profile deteriorates or in case of further deterioration in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	362.44	292.83	316.06
EBITDA	Rs. Cr.	33.48	25.36	42.97
PAT	Rs. Cr.	26.76	13.94	27.52
EBITDA Margin	(%)	9.24	8.66	13.60
PAT Margin	(%)	7.38	4.76	8.71
ROCE	(%)	28.54	19.17	32.13
Total Debt/Tangible Net Worth	Times	0.35	0.29	0.25
PBDIT/Interest	Times	22.32	13.44	26.28
Total Debt/PBDIT	Times	0.91	0.99	0.58
Gross Current Assets (Days)	Days	176	175	132

Status of non-cooperation with previous CRA (if applicable)

None

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A1 (Assigned)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.00#	ACUITE A1 (Assigned)

#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.

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