Press Release

Laguna Clothing LLP

D-U-N-S® Number: 86-142-7232

October 22, 2020

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.67.00 crore (Enhanced from Rs. 50.00 crore)
Short Term Rating	ACUITE A1 (Reaffirmed and Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed and assigned the short term rating of **'ACUITE A1' (read as ACUITE A one)** on the Rs.67.00 crore (Enhanced from Rs. 50.00 crore) bank facilities of Laguna Clothing LLP (LCLP).

The ratings reflects established presence in domestic as well as in the international market, extensive experience of the promoters in the textile industry, longstanding relationship with reputed clientele, comfortable financial risk profile and improving the scalability of the operations. However, the rating is constrained on account of working capital intensive nature of operations and volatility in operating margins.

About Company

Laguna Clothing LLP (LCLP), a Bangalore based Limited Liability Partnership. LCLP has a presence since 2005 and is known for the manufacturing of premium shirts (both formal and semi-formal). The firm has recently entered into a knitted shirt. The firm was a joint initiative between Gruppo Tessile Monti (Italy) and Aquarelle International Limited (Mauritius). However, Aquarelle International Limited (Mauritius) has acquired a 100 percent share in the firm, due to insolvency of other partners in November 2019.

LCLP derives 80 to 85 percent of its revenues from exports to USA, UAE, Denmark, France and other European countries. The manufacturing unit is located in Kanakpura, Karnataka and has an installed capacity of 3.6 million units per annum and is currently operating in a range of 75 to 80 per cent capacity.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence and extensive experience of the promoters in the textile industry**

  LCLP has established presence since 2005 and has been engaged in the manufacturing of premium shirts for men for over a decade. The company is promoted by Aquarelle International Limited (AIL), headquartered in Mauritius, is a step down subsidiary of CIEL Textile Limited. AIL holds 100 per cent stake in the firm. AIL is an international shirts manufacturer having a presence in the global textile industry since 1995. AIL, through its subsidiaries and joint ventures, services its three business lines (formal wear, casual wear and ladies wear). AIL mainly has 3 manufacturing units in Madagascar and 6 manufacturing units in India with over 8,500 employees. The operations of LCLP is managed by its partners Mr. Sarbajit Ghose and Mr. Rajesh Kumar, having experience of more than a decade in the textile industry. The firm is also supported by a second line of management. Established presence of firm and extensive experience of AIL group has helped LCLP to establish healthy relations with reputed clients. 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 LCLP over the near to medium term.

- **Stable scale of operations and reputed clientele**

The revenue has grown at a compounded annual growth rate (CAGR) of ~39 percent since 2017. The firm derives its 85 to 90 percent of revenues through exports. The operating income has increased to Rs. 336.11 crores in FY2020 as against Rs. 231.26 crore in FY2019 and Rs.81.06 crores registering Y-o-Y growth of ~ 45 percent. The improvement is on account of increasing export orders from existing as well as new clientele thus leading to an increase in capacity utilization levels. The firm's capacity utilisation stood at ~86 percent in FY2020 as against ~79 percent in FY2019. However, the decline in global demand in the textile industry due to pandemic across the globe has resulted in lower revenue of Rs. 76.48 crores for H1FY2021. Acuité believes the operational performance of the firm is likely to remain subdued in FY2021. However, the revival in the economy and consumer confidence will remain key for the company's operational performance in FY2021.

Furthermore, the firm caters to reputed clientele such as Best Seller (Denmark), Dressmann (Norway), Polo Ralph Lauren, Charles Tyrwhitt, Dillard's Stores Services Inc., to name a few. The company exports its products to countries like the United Kingdom, USA, Spain, and Sweden, among others. The company also has a reputed domestic clientele such as Benetton India Private Limited, and Tommy India to name a few. The longstanding relationship with this established market players is likely to generate a steady flow of orders and also reduces counterparty risk to a certain extent. Acuité believes firm to benefit from its longstanding relationship with its customer and suppliers.

- **Comfortable financial risk profile**

LCLP has a comfortable financial risk profile marked by healthy net worth, low gearing and comfortable debt protection measures. The tangible networth continues to remain healthy as the same stood at Rs. 98.14 crore as on 31 March, 2020 as against Rs. 100.37 crore in the previous year. The net worth has declined due to payment of share redemption premium and is expected to be lower in FY2021, due to liquidation of one of the partners. The gearing continues to remain comfortable at 0.52 times as on 31 March, 2020 as against 0.37 times in the previous year. The total debt of Rs. 51.50 crore as on 31st March, 2020 pertains to short term working capital borrowings only. Further, the coverage indicators have remained healthy marked by interest coverage ratio of 6.24 times for FY2020 as against 10.25 times in the previous year. The TOL/ TNW ratio stood at 1.30 times as on 31 March, 2020 against 1.10 times in the previous year. The net cash accruals for FY2020 stood moderate at Rs. 13.09 crore against no repayment obligations. Acuité believes that the debt protection metrics will continue to remain comfortable over the medium term on account of moderate revenue visibility, stable operating margins and absence of any major debt-funded capex.

Weaknesses

- **Decline in margins and Working capital intensive operations**

The operating margins of the firm stood declined at 6.00 percent in FY2020 as against 11.17 percent in FY2019. The decline in operating margins is due to an increase in employee cost and benefits due to change payments policy, increased job work expenses and higher freight outward in the last month of the year due to lockdown. Further in FY2020, the firm's PAT margin declined at 2.94 percent as against 6.11 percent in FY2019. The lower profitability has impacted net cash accruals to a certain extent, but liquidity remains comfortable for LCLP. Further, the firm has working capital intensive operations marked by GCA days of 204 for FY2020 against 271 days for FY2019. This is mainly on account of a high inventory holding period of 91 days against in FY2020 and 136 days in FY2019. The receivable collection period stood at 72 days in FY2020 against 104 days in FY2019. Further, the working capital limits remain utilised at 94.00 percent for the last six months ending September, 2020. Acuité believes that in view of the working capital intensive operations, further elongation in the 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 a cotton fabric which is being imported and also from other suppliers in the domestic market. The raw material cost constitutes around 55 to 60 percent of the total sales. Any change in the raw material price and foreign exchange rates is likely to impact the profitability margins. However, the above mentioned risk is mitigated to a certain extent as the entire procurement and production policies are backed by the orders received. Since a large portion of the revenue is denominated in foreign currency and other costs, expense are mostly in Indian rupee. The foreign exchange risk is mitigated to a certain extent due to adequate forex cover and hedging practices.

Rating Sensitivities

- Improving revenue and healthy financial risk profile
- Stagnant growth in margins and lower profitability
- Deterioration in coverage indicators and liquidity profile.

Material Covenants

None

Liquidity Position: Heathy

Liquidity of LCLP is adequate marked by comfortable cash accruals of Rs.13.00 to 17.30 crore against no repayment obligations during FY2018-2020. The accruals are expected to be in the range of 13.50 to 16.00 crores against no major repayment obligation during FY2021-23. The current ratio of the firm stood at 1.55 times as on March 31, 2020. It has unencumbered cash balances of Rs. 9.47 crore as on March 31, 2020. The firm has working capital intensive operations marked by GCA days of 204 for FY2020 against 271 days for FY2019. Further, the working capital limits remain utilised at 94.00 percent for the last six months ending September, 2020.

Outlook:

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	336.11	231.26
PAT	Rs. Cr.	9.88	14.14
PAT Margin	(%)	2.94	6.11
Total Debt/Tangible Net Worth	Times	0.52	0.37
PBDIT/Interest	Times	6.24	10.25

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook

23-Sept-2020	PC/PCFC	Short Term	35.00	ACUITE A1 (Reaffirmed)
	PC/PCFC	Short Term	15.00#	ACUITE A1 (Reaffirmed)
05-Jul-2019	PC/PCFC	Short Term	35.00	ACUITE A1 (Assigned)
	PC/PCFC	Short Term	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.

*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	40.00 (enhanced from 35.00)	ACUITE A1 (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.00#	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A1 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	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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About Acuité Ratings & Research:

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