



Press Release

O C SWEATERS LLP

May 09, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A4 Assigned
Bank Loan Ratings	32.00	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	42.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of "**ACUITE B+**" (read as **ACUITE B Plus**) and short term rating of "**ACUITE A4**" (read **ACUITE A Four**) on the Rs. 42.00 Cr bank facilities of O C Sweaters LLP. The outlook is "**Stable**".

About the Company

OC Sweaters LLP (formerly known as Orient Craft Sweaters Pvt Ltd) was incorporated in July 2011 and is part of the Orient Craft Group. OC Sweaters LLP is a manufacturer of sweaters in India with capacity of producing 120,000-150,000 units a month and having gauge range from 4gg-12gg. Manufacturing facility is situated at IMT Manesar, Gurgaon spread into 4 acres of land with 165,000 sq ft. of covered area. Plant has 204 Stoll machines and 8 flat-hand machines. Post Covid'19, OC Sweaters LLP also built its capacity into manufacturing of woven garments and has approximately 400 sewing machines with monthly capacity of 200,000 units. Mr. Sudhir Dhingra, Mr. Sahil Dhingra and Ms. Shilpa Dhingra are the managing partners in the company.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of O C Sweaters LLP to arrive at the rating.

Key Rating Drivers

Strengths

Experienced promoters and management

Mr Sudhir Dhingra who is the promoter of Orient Craft Group, has over 46 years of experience in the business of textile manufacturing and exports. He is ably assisted by his daughter Ms Shilpa Dhingra who is heading the design department of OC Sweaters LLP and son Mr Sahil Dhingra who are partners in this firm. The management team has rich experience in the

garment industry.

Support from promoters

Promoters of the company have infused funds in the company in the form of unsecured loans to support the liquidity and working capital requirements. Going forward it is expected that the promoters will infuse additional funds to support the business.

Weaknesses

Working capital intensive operations

Company's operations are working capital intensive. While due to disruptions the GCA days stretched to 396 in FY 2021, in previous years it has stood at 115 days in FY 2020 and 151 days in FY 2019. Debtor's realization period fluctuated in the last the last three years from 41 days in FY 2019 to 9 days in FY 2020 and stretching to 169 days in FY 2021. The drop in FY 2020 was because of factoring arrangement the company had with India factoring under which the debtors were transferred to India factoring without recourse. But in FY 2021 since business model was changed and due to disruptions the arrangement was not there and the operations were restarted in late FY 2021 due to which the debtor outstanding were high in last quarter. The debtor days are expected to moderate in the coming times as the company has made another factoring arrangement with an entity which will also finance OC Sweaters against the debtors. Creditors were stretched in FY 2021 due to delayed payments to suppliers because of disruptions. The inventory period is high since the company has to hold higher raw material inventory in form of yarns, fabrics and accessory to offer lower turnaround time to customers. Going forward the team believes that the operations will remain capital intensive. Average bank limit utilization stood at 76.2% between May 2021 and February 2022.

Weak Financial Risk Profile

The company's financial risk profile is weak marked by dwindling net worth, high gearing and negative coverage indicators. Since the company is making losses the net worth of the company came down to Rs 2.01 Cr in FY 2021 which includes Rs. 4.13 Cr of quasi equity infused by the promoters to maintain liquidity. In the coming years since the team expects the company to make losses the net worth would erode further. Gearing (Debt to Equity) stood at 10.25 times in FY 2021. Total debt of Rs. 20.64 Cr in FY 2021 consists of Rs. 5.85 Cr of long term debt, Rs. 3.16 Cr of CPLTD and Rs. 11.63 Cr of working capital borrowings. Since the company is still in recovery the financial risk profile is expected to remain weak in the coming years.

Rating Sensitivities

- Infusion of additional funds by promoters to support the business.
- Improvement in revenue and profitability going forward.
- Significant Improvement in working capital management of the company resulting into improved liquidity.

Material covenants

None.

Liquidity Position: Stretched

The liquidity of the company is stretched as the company is making net losses and the operations are dependent on fund infusion from promoters and other sources. In FY 2021 the promoter infused Rs. 4.13 Cr of quasi equity and the parent entity OCL gave Rs. 14 Cr in form of advance from customers to support the business. As per banker's feedback company has managed to pay its debt obligations despite making losses. Going forward the promoter plans to infuse another Rs. 6.99 Cr in the company by selling off his personal assets and the company has made factoring arrangement with a receivables financing entity from which Rs. 11 cr is expected to be financed against debtors.

Outlook: Stable

Acuité believes that OC Sweaters LLP will maintain a 'Stable' outlook over the medium term on account of the management's experience and established operations. The outlook may be revised to 'Positive' in case of substantial and sustained increase in revenues, profitability and liquidity profile of the company. Conversely, the outlook may be revised to 'Negative' in case of any further decline in revenue, profitability or liquidity of the company as a result of stretched working capital requirement.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	34.90	103.10
PAT	Rs. Cr.	(7.48)	(10.36)
PAT Margin	(%)	(21.43)	(10.05)
Total Debt/Tangible Net Worth	Times	10.25	6.32
PBDIT/Interest	Times	(3.25)	(0.52)

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

CARE vide its press release dated 22 March 2022, has mentioned the rating of OC Sweaters LLP to '[CARE] C/Stable/A4' Issuer Not Cooperating as on 22 March 2022.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE B+ Stable Assigned
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	14.66	ACUITE B+ Stable Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	2.34	ACUITE B+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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