

Karle International Private Limited

April 07, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	-	-	Withdrawn
Short-term Bank Facilities	55.50 (reduced from 109.50)	CARE A4 (A Four)	Reaffirmed
Total Facilities	55.50 (Rupees Fifty five crore and fifty lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Karle International Private Limited (KIPL) continues to be constrained by its weak operational performance and cash losses during FY16 (refers to the period April 1 to March 31) owing to closure of one of manufacturing facility, leveraged capital structure, high regional concentration risk, stretched operating cycle owing to high inventory days, exposure to foreign exchange fluctuation risk and presence in the highly fragmented & government regulated industry. The ratings, however, derive strength from KIPL's experienced promoters, long track record of the Karle group in the industry, established export base and long-term relations with clients. The ability of the company to stabilize the disrupted production and efficient management of its working capital requirements constitute the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Substantial drop in the operating income and losses owing to closure of one of the manufacturing facilities: The company witnessed a drop of 44% in its operating owing to the closure of the Neelmangla unit in November 2015. Due to the high level of operational expenses incurred for the closed unit, coupled with high interest expense to fund the high level of inventories and receivables, KIPL had made cash losses of Rs.18.50 crore in FY16 (as against cash accruals of Rs.1.16 crore in FY15). During FY17, KIPL has transferred certain machineries and inventories from the closed Neelmangla unit to Nagasandra unit.

Weak capital structure but funding support from the promoters: The capital structure of the company further weakened owing to losses in FY16, and rise in the unsecured loans from promoters to support the operations of the company. The coverage indicators remains weak, however the company is meeting the shortfall in its debt servicing by infusion of funds in the form of unsecured loans from the promoters.

Stretched operating cycle owing to high inventory days: The company's inventory holding period went up to 477 days in FY16 from 333 days in FY15 owing to shutdown of one of the manufacturing unit due to shortage of labor leading to non-execution of orders and further stretch in operating cycle to 477 days in FY16 as against 333 days in FY15.

Key Rating Strengths

Long track record of the group and experience of promoters in the readymade garments industry: Karle group has an established track record of more than four decades in the readymade garments business. Mr Sudarshan Karle looks after production and administration and Mr Mahendra Karle looks after marketing and finance functions of KIPL.

Established export base & long term relations with clients: KIPL primarily caters to the premium readymade garments and supplies to major global fashion houses such as Ann Taylor, Polo Ralph, Eddie Bauer, Nordstrom etc. Over the years, the company has developed long term relations with its clients which helps it get repeat orders.

Analytical approach: Stanalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios: Non-Financial sector](#)

[Short term instruments](#)

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

About the Company

Originally established as a partnership firm in 1994 by Mr Sudarshan Karle and Mr Mahendra Karle, KIPL was converted into a private limited company in September 2008. KIPL belongs to the Karle Group, and is engaged in manufacturing of readymade garments at Bangalore. Till FY15, the company had two units at Bangalore located at Neelmangla & Nagasandra. The company had faced labor availability issues at Neelmangla forcing shut down of the unit in November 2015 which had resulted in drop in production (and consequently sales) . At present only the Nagasandra unit is working, which is a 100% export oriented unit, besides marginal operations in Ethiopia through a subsidiary. The group has interests in real estate and biotech & pharmaceutical fields through other group companies. The flagship company Karle Infrastructure Ltd is rated CARE BBB-.

KIPL registered total operating income of Rs.94.81 crore and net loss of Rs.16.17 crore in FY16 as against operating income of Rs.157.58 crore and net loss of Rs.3.08 crore in FY15.

Status of non-cooperation with previous CRA: CRISIL has suspended its ratings of CRISIL A4+ vide press release dated June 2015, on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - ST-EPC/PSC	-	-	-	40.00	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	13.00	CARE A4
Non-fund-based - ST-Forward Contract	-	-	-	2.50	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB (05-Apr-16)	1)CARE BB+ (23-Apr-15)	1)CARE BB+ (04-Jun-14)
2.	Fund-based - ST-EPC/PSC	ST	40.00	CARE A4	-	1)CARE A4 (05-Apr-16)	1)CARE A4+ (23-Apr-15)	1)CARE A4+ (04-Jun-14)
3.	Fund-based - ST-Foreign Bill Discounting	-	-	-	-	1)CARE A4 (05-Apr-16)	1)CARE A4+ (23-Apr-15)	1)CARE A4+ (04-Jun-14)
4.	Fund-based - ST-Standby Line of Credit	-	-	-	-	1)CARE A4 (05-Apr-16)	1)CARE A4+ (23-Apr-15)	1)CARE A4+ (04-Jun-14)
5.	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A4	-	1)CARE A4 (05-Apr-16)	1)CARE A4+ (23-Apr-15)	1)CARE A4+ (04-Jun-14)
6.	Non-fund-based - ST-Bank Guarantees	-	-	-	-	1)CARE A4 (05-Apr-16)	1)CARE A4+ (23-Apr-15)	1)CARE A4+ (04-Jun-14)
7.	Non-fund-based - ST-Forward Contract	ST	2.50	CARE A4	-	-	-	-

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