

L T Karle & Co

March 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Short term Bank Facilities	24.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total	24.00 (Rupees Twenty- four crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from L T Karle & Company(LTKC) to monitor the rating vide e-mail communications dated November 1, 2020, November 13, 2020, December 29, 2020, January 18, 2021 and February 2, 2021 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on L T Karle & Company bank facilities will now be denoted as **CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The rating of bank facilities of L T Karle & Company continues to be constrained by weak financial risk profile, customer concentration risk, stretched operating cycle and highly fragmented and government regulated industry. However, these weaknesses are partially offset by the long track record of Karle group in the industry, established export base & long term relations with clients.

Detailed description of the key rating drivers

At the time of last rating on March 9, 2020 the following were the rating strengths and weaknesses:

Key Rating Weaknesses**Improvement in operating income during FY19 but losses continued**

During FY19 LTKC witnessed improvement of 50% in sales from Rs.41.50 crores in FY18 to Rs. 62.40 crores in FY19. Improvement in sales were on account of improvement in the capacity utilization of the plant from 41% during FY18 to 52% during FY19. However, the firm showed cash losses due to high material costs which could not be passed on to the customers and increase in employee expenses.

Stretched operating cycle

The operating cycle of the firm remained stretched but improved to 145 days in FY19 (PY: 247 days) primarily owing to high inventory holding period. LTKC imports more than 80% of its total raw material (mainly fabric) requirement based on orders and as per customer specifications. Imports are mainly from China, Taiwan, Pakistan, Korea and Europe. LTKC's production is order based and products are mainly women's and kids fashion wear including tops, pants, shorts, skirts, trousers, jackets and ladies dress. Long delivery time for import and extensive production process with fashion product portfolio on account of various designs and styles results into high inventory holding levels.

High regional concentration and foreign exchange rate fluctuation risk

LTKC derives about 86% share of revenues from exports to North America being the highest contributor leading to significant concentration of revenues. Since majority of the sales are exports, the firm faces foreign exchange risk due to unstable currency fluctuations, which has a direct impact on firm's profitability margins. The firm is naturally hedged to some extent through import of raw materials. Besides, the firm partially hedges the export receivables using the forward contracts.

Highly fragmented and government regulated industry impacting business operations

The readymade garment industry in India is highly fragmented and dominated by a large number of independent and small unorganised players, leading to a high competition among industry players. Thus, LTKC is exposed to significant competition

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

*Issuer did not cooperate; Based on best available information

both in domestic as well as export apparel market. Furthermore, the prices of raw materials and finished goods are determined by global demand-supply scenario and are not limited to only domestic demand and supply. LTKC derives majority of the sales from export market; hence, any shift in the macroeconomic environment globally may have an impact on the firm's revenue

Key Rating Strengths

Long track record of the group and experience of promoters in readymade garments industry

Karle group has an established track record of more than four decades in the readymade garments business. Mr. Sudarshan Karle and Mr. Mahendra Karle are the managing partners of LTKC and have more than four decades experience in the readymade garment industry. The firm has continuously modernized its manufacturing capacities to tap the available opportunities in this sector. Mr. Sudarshan Karle looks after production and administration and Mr. Mahendra Karle looks after marketing and finance functions of LTKC.

Established export base & long term relations with clients

LTKC primarily caters to the premium readymade garments and supplies to major global fashion houses such as Ann Taylor, Polo Ralph, Eddie Bauer, Nord Strom etc. Over the years, the firm has developed long term relations with its clients which helps it get repeat orders but during FY19 firm restricted its production to only Ann Taylor, Rs. 49.15 crore (FY: Rs. 20.24 crore). Major part of revenue for LTKC is through exports. Domestic sales are to clients like Peter England, Raymonds, Arvind Mills, Spykar Lifestyle which reduced from 25% during FY18 to 14% during FY19 as the export base increased during the year.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

[Ratios - Non Financial Sector](#)

[Criteria for short Term Instruments](#)

About the Company

Set up in 1972, L. T. Karle & Co. (LTKC), a partnership firm is promoted by Mr. Sudarshan Karle and Mr. Mahendra Karle. LTKC belongs to the Karle group and is engaged in the business of manufacturing and export of readymade garments since 1972. Currently the firm has one plant located at Peenya, which is supported by additional facilities such as embroidery, washing, dyeing. Till FY16; LTKC had two manufacturing plants located at Peenya and Madavara in Bangalore; the firm has closed the Madavara plant, as it was not getting orders from customers due to some compliances issues related to the layout. The group has interests in real estate and biotech & pharmaceutical fields through other group companies.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	41.5	62.4
PBILDT	-7.75	-4.92
PAT	-13.22	-7.95
Overall gearing (times)	1.7	4.78
Interest coverage (times)	NM	NM

A: Audited; NM: Not Meaningful

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated June 05, 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

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	-	17.00	CARE A4; ISSUER NOT COOPERATING*
Fund-based - ST-FBN / FBP	-	-	-	-	1.50	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	-	5.50	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-Packing Credit in Foreign Currency	ST	17.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (09-Mar-20)	1)CARE A4 (04-Mar-19)	1)CARE A4; ISSUER NOT COOPERATING* (28-Mar-18) 2)CARE A4 (07-Apr-17)
2.	Fund-based - ST-FBN / FBP	ST	1.50	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (09-Mar-20)	1)CARE A4 (04-Mar-19)	1)CARE A4; ISSUER NOT COOPERATING* (28-Mar-18) 2)CARE A4 (07-Apr-17)
3.	Non-fund-based - ST-BG/LC	ST	5.50	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (09-Mar-20)	1)CARE A4 (04-Mar-19)	1)CARE A4; ISSUER NOT COOPERATING* (28-Mar-18) 2)CARE A4 (07-Apr-17)

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-FBN / FBP	Simple
2.	Fund-based - ST-Packing Credit in Foreign Currency	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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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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.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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