Karle International Private Limited

March 02, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Short term Bank Facilities	20.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total	**20.00 (Rupees Twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Karle International Private Limited 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 Karle International Private Limited 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 Karle International Private Limited 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 sales during FY19 but losses continue

During FY19, KIPL witnessed improvement in sales of ~50% YoY. Improvement in sales were on account of improvement in the capacity utilization of the plant from 25% during FY18 to 34% during FY19. However, the company continued to make cash losses due to high material costs and increase in employee expenses and rental costs. During FY19, the company sold its existing unit at Nagasandra at a profit of Rs.22.16 crore but continued to operate from the same by paying rentals of Rs.15 lacs per month. Cash losses continued in H1FY20.

Weak capital structure but funding support from promoters

Capital structure of the company continues to be weak with deterioration in networth from Rs.17.67 cr as on 31.03.2018 to Rs.11.07 cr as on 31.03.2019. Overall gearing deteriorated from 8.24x as on 31.03.2018 to 13.82x as on 31.03.2019. During FY19, company has infused unsecured loans in the form of inter corporate deposits to the tune of Rs.29.89 cr. The company has been meeting the repayment obligations by infusion of funds in the form of unsecured loans/ICDs over the years. Company availed moratorium for a period of six months starting from March, 2020

Stretched operating cycle

Company imports about 50-60% of its raw materials. Total raw material (mainly fabric) requirement are procured based on orders and requirement of clients. Long delivery time for import and extensive production process since the company is into fashion products of various designs and styles results into high inventory holding levels. Also the company has to maintain high stocks of raw material to execute orders as per the stipulated timelines. As on 31.03.2019, inventory holding days reduced to 334 days from 497 days and operating cycle reduced to 242 days as on 31.03.2019 (PY: 369 days).

Customer concentration risk and exposure to foreign exchange price fluctuation risk

More than 60% of the sales are from Ann Taylor leading to customer concentration risk. However, it's long standing and established relationship, reduces the risk of single customer concentration to a certain extent. Since majority of the sales are exports, the company faces foreign exchange risk, which has a direct impact on company's profitability margins. The company is naturally hedged to a considerable extent through import of raw materials which constitutes to around 60% of

[1]*Complete 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* the raw materials purchases. Besides, the company partially hedges the export receivables using the forward contracts (on a quarterly basis).

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, KIPL is exposed to significant competition 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. KIPL derives about 99% of the sales from export market; hence, any shift in the macroeconomic environment globally may have an impact on the company'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 promoter directors of KIPL and have more than four decades experience in the readymade garment industry. 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, American Eagle, Marco O Polo, Tommy Bahamma, Polo Ralph, Eddie Bauer, Nord Strom etc. Over the years, the company has developed long term relations with its clients which helps it get repeat orders. KIPL is a 100% EOU and exports are mainly to countries like North American, Europe and rest of Asia. During FY19, company added new clients including American Eagle, O Neill, Shinsega and work wear.

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
Originally established as a partnership firm in 1994 by Mr. Sudarshan Karle and Mr. Mahendra Karle, Karle International Private Limited (KIPL) (100% export oriented unit) 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, company had two units at Bangalore located at Neelmangla & Nagasandra. The company had faced labour issues at Neelmangla forcing shut down of the unit in November 2015. At present only the Nagasandra unit is working, besides marginal operations in Ethiopia through a subsidiary. During FY19, the company sold the Nagasandra unit but continued to operate in the same premise under rent.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	43.02	64.43
PBILDT	-24.81	-21.05
PAT	-31.36	-6.54
Overall gearing (times)	8.24	13.82
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 vide PR dated June 05, 2015 has suspended its ratings on the bank facilities of Karle International Pvt Ltd

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-EPC/PSC	-	-	-	-	19.75	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Forward Contract	-	-	-	-	0.25	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 - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (07-Apr-17)
2.	Fund-based - ST-EPC/PSC	ST	19.75	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (09-Mar-20)	1)CARE A4 (11-Feb-19)	1)CARE A4 (29-Mar-18) 2)CARE A4 (07-Apr-17)
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (11-Feb-19)	1)CARE A4 (29-Mar-18) 2)CARE A4 (07-Apr-17)
4.	Non-fund-based - ST-Forward Contract	ST	0.25	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (09-Mar-20)	1)CARE A4 (11-Feb-19)	1)CARE A4 (29-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-EPC/PSC	Simple
2.	Non-fund-based - ST-Forward Contract	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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