

Laj Exports Limited

August 13, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*) and Withdrawn
Short Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE B; Stable/CARE A4, Issuer Not Cooperating' [Single B; Outlook: Stable/ A Four; Issuer Not Cooperating] assigned to the bank facilities of Laj Exports Limited (LEL) with immediate effect. The above action has been taken at the request of LEL and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

At the time of last rating on June 24, 2020 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Working capital intensive nature of operations:

The company has working capital intensive nature of operations as reflected by elongated operating cycle of 171 days as on March 31, 2020 (PY: 164 days). The company offers a credit period of 30-60 days to its customers as majority of them are large size players which possess high bargaining power as compared to LEL. Average collection period stood at 48 days (PY: 50days) as on March 31, 2020. The company gets a credit period of ~30 days from its creditors. Majority of the working capital is blocked in the inventory with inventory days of 136 days (PY: 129 days) as on March 31, 2020 because of increase in inventories to Rs.79.18 cr (PY: Rs.66.12 cr). Further, In FY20, cost of material consumed stood at Rs. 144.99 cr as compared with FY19, wherein it stood at Rs. 147.78 cr. due to reduction in scale of operations.

The average working capital utilization of the company has been high at 91.61% (PY: 92%) for the 12 month ended Dec'18.

Exposure to raw material price volatility & exchange fluctuation risk:

In FY20, the ratio of cost of materials consumed to sales has decreased to 64.54% as compared to 67.40% in FY19. However, the company is exposed to the raw material price volatility experienced in the prices of polyester, cotton and crude oil derivatives. As these materials form majority of the raw materials used for production of goods, it directly impacts the profitability margins of the company. As the company gets majority of its payment in foreign currency and the payment to suppliers is done in domestic currency, there exists an exchange fluctuation risk.

Further, In FY20, the company has reported overall net profit of Rs. 3.73 cr. as compare to profit of Rs. 3.95 cr. in FY19. Further, the company has report loss in income of Rs. 13.24 cr. due to fluctuations in the exchange rate as compared to a gain in income of Rs. 20.70 cr in FY18.

Leveraged capital structure and weak coverage indicators:

The debt coverage indicators have improved with debt to equity at 0.46x (PY: 0.50x) and overall gearing ratio at 1.84x (PY: 1.98x) as on March 31, 2020, on the account of repayments of the term loans. The interest coverage ratio has decreased to 2.02x (PY: 1.88x) on account of increase in the interest expenses in FY20 (Rs. 6.50 cr) as compared to (Rs. 8.39 cr) in FY19.

Highly fragmented and competitive market:

The readymade garment industry in India is highly fragmented and dominated by a large number of independent and small scale unorganized players leading to high competition among them. The smaller companies in general are more vulnerable to intense competition due to their limited pricing flexibility, which constrains their profitability as compared to larger companies who have better efficiencies and pricing power considering their scale of operations.

Key Rating Strengths

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

Experienced Promoters and management team:

LEL was initially formed as a proprietorship firm in 1996 by Mr. R. K. Aneja. Later, in 2004, it was converted to public limited company with Mr. R.K. Aneja and Mr. N.K. Aneja as promoters. Mr. R.K. Aneja and Mr. N.K. Aneja have more than 2 decades of experience in the apparel business. Both of them were also engaged in providing consultancy for setting up production, finance, inventory and quality control systems in numerous textiles and apparel companies in India, Nepal, Oman, etc. for more than a decade. Mr. R.K. Aneja (Chairman) manages the overall affairs of the company whereas Mr. N.K. Aneja (Managing Director) and Mr. Suvrat Bidani (Director) looks after the finance & procurement and production function respectively.

Established relationship with reputed customers:

The Company has been in the business of manufacturing of apparels for more than a decade and has developed strong relationships with its customers, from whom it gets repeat orders. The customer base of the company includes reputed domestic players like United Colors of Benetton India, Lifestyle International Pvt Ltd (Max) etc. and overseas players like WE Europe BV (Netherlands), Just Brands BV (Netherlands), United Colors of Benetton (Italy), Sanjeev 1979 Ltd (UK), etc. Further, all the sales of the company are order backed since each apparel order is as per the technical and design specifications of the customer.

Moderate scale of operations with moderate profitability margins:

The total operating income has declined to Rs. 224.66 cr in FY20 as compared to Rs. 231.48 cr in FY19. However, the company reported net loss on the income from other operations like foreign exchange fluctuations of -Rs.13.24 cr in FY19 (PY: Rs. 20.70 cr). The profitability margins have however improved with PBILDT margin at 5.84% (PY: 6.80%) and PAT margin at 1.66% (PY: 1.71%) mainly on account of decline in cost of material consumed.

Analytical approach: Standalone

Applicable criteria

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

[Policy on Withdrawal of ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Financial ratios – Non-Financial Sector](#)

About the Company

LEL is a closely-held public limited company incorporated in February 2004, promoted by Mr. R.K. Aneja and his brother Mr. N.K. Aneja. The company is engaged in manufacturing of ready-made garments for men, women and kids wear segments. The major products are shirts & trousers (men), tops, bottoms, skirts and blouses (women), and t-shirts and shirts (kids). The main raw materials of the company's products are yarn, fabrics and trims which are mainly procured from Punjab, Haryana, Rajasthan and Karnataka as well as imported as per its requirements. The company has its manufacturing facilities located at Noida (UP) and Bengaluru (Karnataka) with a total installed capacity of 72 lakh pieces per annum.

Brief Financials - Standalone(Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	219.14	224.66
PBILDT	16.65	13.12
PAT	3.95	3.73
Overall gearing (times)	1.92	1.84
Interest coverage (times)	1.98	2.02

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (24-Jun-20)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (01-Apr-19)	1)CARE BB; Stable (03-Apr-18)
2.	Fund-based - ST-EPC/PSC	ST	-	-	-	1)CARE A4; ISSUER NOT COOPERATING* (24-Jun-20)	1)CARE A4+; ISSUER NOT COOPERATING* (01-Apr-19)	1)CARE A4+ (03-Apr-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-EPC/PSC	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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact

Name: Kunal Arora
Contact no.- 011-45333237
Email ID- kunal.arora@careratings.com

Relationship Contact

Name: Swati Agrawal
Contact no. : +91-11-4533 3200
Email ID: swati.agrwal@careratings.com

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