

Elegant Overseas (Revised)

June 16,2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5.49 (Enhanced from 0.11)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B-; Stable; (Single B Minus; Outlook: Stable)
Short Term Bank Facilities	33.00 (Enhanced from 29.00)	CARE A4+ (A Four Plus)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE A4; (A Four)
Total Bank Facilities	38.49 (₹ Thirty-Eight Crore and Forty-Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1.

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of Elegant Overseas (EO) and in line with the extant SEBI guidelines, CARE downgraded the rating(s) of bank facilities of the firm to 'CARE B-/Stable/ CARE A4; ISSUER NOT COOPERATING'. However, the firm has now submitted the requisite information to CARE. CARE has carried out a full review of the ratings and the rating(s) stand at 'CARE BB+/Stable/CARE A4+'

Detailed rationale and key rating drivers

The ratings assigned to bank facilities of Elegant Overseas continue to remain concentrated by modest scale of operations, levered capital structure, working capital intensive nature of operations and concentrated client base. The rating is further constrained by vulnerability of margins to fluctuations in the prices of raw material, foreign exchange risk partnership nature of the constitution and competitive and fragmented nature of the readymade garment industry. The rating however derives strength from strategic location of manufacturing unit and vast experience of the promoters in the apparel industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability to scale up the operations to over Rs.200 crores while maintaining the PBILDT margin of over 10% on a consistent basis
- Improvement in capital structure with overall gearing below 2.00x
- Change of constitution to Private Limited Company

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any sizable decline in the scale of operations with income below Rs.100 crore along with decline in profitability margins to below 5% on a sustained basis
- Withdrawal of funds by partners leading to moderation in capital structure with overall gearing above 3x.

Detailed description of the key rating drivers

Key rating strengths

Strategic location of manufacturing unit

EO is engaged into manufacturing and sales of premium fashion apparels and accessories. The manufacturing facility of the firm is located at Berhampur Road, Gurgaon with an installed capacity of 66 acs pcs. p.a. and manufactures around 52 lacs pieces p.a. with capacity utilization of 78 %. The factory is equipped with all the amenities for manufacturing of readymade garments such as knitting, dyeing, cutting, stitching, sewing, washing, ironing, and packing of readymade garments. The plant is located in at NH 8 Gurgaon which enables the firm to remain competitive by combating transportation cost and continuous supply of raw

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

materials, there by acting as an entry barrier for any new entrant. EO orders yarn directly from yarn mills based in Ludhiana, Punjab such as Vardhaman Mills, Sportking etc. Further, the plant is close to major textile centres of northern and western India ensuring better connectivity enabling fast delivery of raw materials.

Experienced Promoters

The company is promoted by four partners- Shri M. C. Gupta, Shri Ashok Singhal, Shri Vinod Kr. Jindal and Smt. Pushpa Jindal. Shri M. C. Gupta (aged 74 years) look after the overall operations. Shri Ashok Singhal (aged 65 years); look after the overall production. Shri Vinod Kr. Jindal (aged 63 years); look after entire marketing division, Smt. Pushpa Jindal (wife of Shri Vinod Kr. Jindal, aged 62 years), look after the administrative department. All partners have around three decades of experience. Further, EO has various senior management personnel/functional heads who are professionally qualified and hold significant experience of industry operations. The promoters have a proven track record of scaling up the business to become a leading exporter in manufacturing of cotton textiles

Key rating weaknesses

Fragmented and competitive nature of the garment industry

The readymade garment industry is highly fragmented and is characterized by low entry barriers as it is the least capital-intensive part in the textiles value chain. There are more than 8,000 exporters registered with Apparel Export Promotion Council (AEPC). The garment exporters also face tough competition from low cost south Asian countries like Bangladesh, Vietnam, and Thailand. Bangladesh's free trade agreement with European Union provides it a competitive edge. In order to safeguard India's garment exporters from global competition government has approved for continuation of Rebate of State and Central Taxes and Levies (RoSCTL) till March 31, 2024. Further, the Apparel Export Promotion Council (AEPC) is seeking government intervention amid a spike in raw material prices to protect competitiveness of Indian apparel exports in the global market.

Working capital intensive nature of operations

Operations of EO, being manufacturing of garments, are working capital intensive in nature. After acceptance of purchase order, the firm procures raw materials from local vendors. Payment cycle to its suppliers stood at 31 days in FY22. (PY: 68 days.) The raw materials procured are cotton yarn and fabric. Yarn is knitted into fabric and then the further process of dyeing, cutting, stitching, sewing, washing, ironing and packing are performed in the manufacturing facility of the firm. The entire production cycle takes 90 days to arrive at finished product. For this the firm needs to maintain an average inventory which stood at 27 days in FY22 (PY: 44 days). The firm primarily deals in exports, payments are usually LC-backed for most customers. The average collection period stood at 71 days in FY22. (PY: 133 days). The working capital requirements are largely met through bank borrowings as a result of which its sanctioned working capital limits remained 80% utilized for the last 12 months period ended May 2022.

Client concentration risk

The majority of sales are driven by few clients. Superdry being its top client constituting over 63.99% of the total sales in FY22 (PY: 83.77) indicating high client concentration risk. However, the firm has established strong relationships with its clients, which mitigates this risk to a large extent. Further during FY22, the firm has diversified its client base and added new clients by establishing tie ups. The new clients are The Trade Aid Company, Aikya Intenational Sourcing Ltd, Ultimate SA. The risk is further mitigated by strong brand presence of its counterparty.

Partnership nature of its constitution

EO's constitution as a partnership firm leads to limited financial flexibility and inherent risk of capital withdrawal at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partner. Moreover, partnership firms

have restricted access to external borrowing as credit worthiness of partner would be the key factor affecting credit decision for the lenders. During FY22 the partners have withdrawn funds to the tune of Rs. 2.94 crore.

Modest scale of operations

EO's scale of operations stood modest as marked by total operating income of Rs.145.53 crore and gross cash accruals of Rs.8.73 crore respectively in FY22 (Prov.), as against Rs.96.50 crore and Rs.4.48 crore respectively, during FY21 (refer to the period April 1 to March 31). The improvement in scale of operations is on account of higher orders executed. Further, the firm's network base was relatively small at Rs. 13.47 crore as on March 31, 2022 (prov.). Nevertheless, modest scale limits the firm's financial flexibility in times of stress and deprives it of scale benefits.

Susceptibility to volatility in raw material prices

Profitability margins of the firm remain susceptible to the volatility in the cotton prices. Cotton prices have gained 40% in 2022 and are at an 11-year high due to a demand-supply mismatch. This is hurting the entire cotton value chain including the yarn and cotton garment manufacturers. Readymade garment exporters are facing liquidity crises because of soaring cotton and yarn prices, which is making it difficult for them to deliver shipments to their foreign buyers on time. EO however, manages to transfer this increase in price to its customers. EO negotiates price with its customers every season (3 months) in which it factors the inflated raw material prices. The firm is also holding raw material inventory of 5-6 months to mitigate short term price soaring of yarn.

Foreign Exchange Risk:

EO exports 90% of its finished products in USA, UK, and Europe. With initial cash outlay for procurement in domestic currency and significant chunk of sales realization in foreign currency, the firm is exposed to the fluctuation in exchange rates. However, the firm hedges 90% of its export receivable exposure through forward contracts. Nevertheless, for the uncovered portion, the firm's profitability margins are exposed to volatility in foreign exchange. Moreover, any change in government policies, either domestic or international is likely to affect the EO's revenues. Earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non-tariff barriers (restriction on the quality of imports), anti-dumping duties, international freight rates and port charges. EO generated income from Exchange Rate Fluctuation of Rs. 1.76 crore in FY21 as against Rs. 0.14 crore in FY20.

Leveraged Capital Structure

The capital structure of the company stood leveraged as on the past three balance sheet dates ending March 31, 2022 on account of higher reliance on external borrowings to fund the incremental working capital requirements of business. Overall gearing ratio stood at 2.13x as on March 31, 2022 showing marginal improvement from 2.46x as on March 31, 2021.

Liquidity: Adequate- Liquidity of the firm is adequate as marked by comfortable Gross cash accruals vis-a-vis Repayment obligations. The firm is expected to envisage gross cash accruals of Rs 9.00 crores in FY22 as against term debt obligations of Rs 1.66 crores in same year. However, the working capital requirements are largely met through bank borrowings as a result of which its sanctioned working capital limits remained 90% utilized for the last 12 months period ended May 2022. Further, the firm has low unencumbered cash and bank balance of Rs. 0.20 crore as on April 30th, 2022.

Analytical approach- Standalone**Applicable criteria**

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)
[Cotton Textile](#)

About the company

Elegant Overseas (EO), set up in the year 1995 is a Gurgaon based ISO 9001:2008 certified partnership firm. It is engaged in manufacturing and export of garments. It is promoted by four partners, Shri M.C. Gupta, Shri Ashok Singhal, Shri Vinod Kr. Jindal and Smt. Pushpa Jindal. Shri M.C. Gupta looks after the day to day business of the firm with the assistance of other partners. The firm manufactures readymade cotton garments (T-shirts) and exports directly to the international brands including Superdry, Fat Face etc. The manufacturing facility of the firm is located at Behrampur Road, Gurgaon with an installed capacity of 66 lacs pcs. p.a. The factory is equipped with all the amenities for manufacturing of readymade garments such as knitting, dyeing, cutting, stitching, sewing, washing, ironing, and packing of readymade garments.

Brief Financials (Rs. crore)	31-03-2021(A)	31-03-2022 (P)	2MFY23 (UA)
Total operating income	96.50	145.53	32.00
PBILDT	9.60	10.61	N.A
PAT	2.92	7.20	N.A
Overall gearing (times)	2.46	2.13	N.A
Interest coverage (times)	1.87	5.10	N.A

A: Audited; P: Provisional; UA: Unaudited; N.A: Not Available

Status of non-cooperation with previous CRA: Elegant Overseas has not cooperated with CRISIL which has classified it in noncooperative category vide press release dated March 17,2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/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-LT-Term Loan		-	-	Dec 2027	5.49	CARE BB+; Stable
Fund-based - ST-PC/Bill Discounting		-	-	-	18.00	CARE A4+
Fund-based - ST-Post Shipment Credit		-	-	-	15.00	CARE A4+

Annexure-2: Rating history for the 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	5.49	CARE BB+; Stable	-	CARE B-; Stable; ISSUER NOT COOPERATING* (12-Apr-21)	-	CARE B; Stable; ISSUER NOT COOPERATING* (25-Feb-20)
2	Fund-based - ST-PC/Bill Discounting	ST	18.00	CARE A4+	-	CARE A4; ISSUER NOT COOPERATING* (12-Apr-21)	-	CARE A4; ISSUER NOT COOPERATING* (25-Feb-20)
3	Fund-based - ST-Post Shipment Credit	ST	15.00	CARE A4+	-	CARE A4; ISSUER NOT COOPERATING* (12-Apr-21)	-	CARE A4; ISSUER NOT COOPERATING* (25-Feb-20)

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

Sr. No	Name of instrument	Complexity level
1	Fund Based-LT-Term Loan	Simple
2	Fund-based - ST-PC/Bill Discounting	Simple
3	Fund-based - ST-Post Shipment Credit	Simple

Annexure-5: Bank lender details for this company: To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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