Creative Garments

February 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	15.00	CARE BB-; Stable / CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Creative Garments (CG) continue to be constrained by its small scale of operations, moderate profitability margins, moderate capital structure and debt coverage indicators and working capital cycle intensive nature of operations. The ratings are further constrained on account of foreign exchange fluctuation risk, constitution of the entity as a partnership firm and presence in the competitive and fragmented industry.

The ratings continue to derive strength from long and established track record of operation and experienced and resourceful partners.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations with a total operating income exceeding ₹40 crore with tangible net worth base exceeding ₹20 crore on a sustained basis
- Improvement in PBILDT margin to more than 8% on a sustained basis

Negative factors

- Deterioration in capital structure with overall gearing exceeding 2x on a sustained basis
- Deterioration in interest coverage ratio to below 1.50x on a sustained basis

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook on the rating reflects CARE Ratings Limited's (CARE Ratings) expectation that CG will continue to benefit from its experienced and resourceful promoters and its established track record in the industry.

Detailed description of key rating drivers:

Key weaknesses

Small scale of operations

Despite having a long track record, CG's scale of operations remains relatively small, with a decline of 10.38% in total operating income (TOI) to ₹40.21 crore in FY24 (refers to period April 1 to March 31), compared to ₹44.87 crore in FY23. This decline was primarily attributed to lower domestic sales, which dropped from ₹15.39 crore in FY23 to ₹7.07 crore in FY24. Furthermore, the firm has already achieved ₹24.54 crore sales during H1FY25 (April 1 to September 30).

Moderate profitability

CG's profitability, though improved, remained moderate and rangebound. PBILDT margin improved by 238 basis points to 8.34% in FY24 from 5.96% in FY23 led by higher proportion of export sales. PAT margin increased to 17.03% in FY24 which included non-operating income of Rs.7.69 crore from the sale of assets from 7.57% in FY23.

Working capital intensive nature of operations

CG's operations continued to be working capital intensive. Operating cycle deteriorated to 149 days in FY24 compared to 112 days in FY23 due to deterioration in collection period and inventory period. Inventory days remains stretched as CG has to keep inventory of raw material to cater orders in timely manner and stood at 130 days in FY24 (100 days in FY23).

Foreign exchange fluctuation risk

Profitability of CG is also exposed to fluctuations in foreign currency, as the firm earns large portion (~80% in FY24, ~60% in FY23) of revenue from exports. However, the firm takes forward cover to hedge the foreign currency fluctuations. CG reported Rs.0.66 crore in foreign exchange gain in FY24 (vis-à-vis gain of Rs.0.44 crore in FY23).

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

Moderate capital structure and debt coverage indicators
CG's capital structure though improved, remained moderate marked by overall gearing of 1.20x as on March 31, 2024, compared to 1.84x as on March 31, 2023, with improvement in firm's net worth to Rs.12.64 crore in FY24, from Rs.7.77 crore in the preceding year.
Debt coverage indicators of the company also remained moderate marked by TDGCA 1.92x (PY: 3.41x) as on March 31, 2024. Interest coverage indicator (PBILDT/Interest) remained moderate at 2.25x as on March 31, 2024 (PY: 1.84x).

Partnership constitution of firm
As a partnership firm, CG faces the inherent risk of capital withdrawal by partners during personal contingencies. During FY24, the partners withdrew Rs. 1.98 crore (Rs.9.38 crore in FY23). Additionally, the firm has restricted access to external borrowings, as the net worth and creditworthiness of the partners play a crucial role in lenders' credit decisions. Consequently, the firm has limited funding options and financial flexibility, which has contributed to its small scale of operations.

Presence in competitive and fragmented industry
The firm operates in an intensely competitive and fragmented industry, where it faces fierce competition from both organized and unorganized players within the domestic and international market. This competitive environment limits CG's potential to improve its operating margins.

Key Strengths
Long and established track record of operation and experienced and resourceful partners
The partners of the entity have experience of over two decades in the industry and look after the overall operations. Over the years, partners have maintained relationship with its customers thus benefiting the entity by securing regular sales. Moreover, the partners are resourceful and would be able to infuse the funds to support the growing scale of operations going forward.

Liquidity: Adequate
CG has low repayment obligations for FY25. CG's average fund-based utilisation for 12 months ending October 31, 2024, remained at ~97% (PY: 90.80%).
Current and quick ratio stood at 1.10x (PY: 1.06x) and 0.59x (PY: 0.58x) respectively as on March 31, 2024. Cash and bank balance of the company was Rs.0.26 crore as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Cotton Textile
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Textiles	Textiles & Apparels	Garments & Apparels

Established in 1974, M/s Creative Garments (CG) is a partnership firm engaged in the manufacturing of readymade garments (mainly ladies wears). CG has two manufacturing facilities located in Mumbai (Kalyan, Lower Parel) with aggregate installed capacity of 12,00,000 pieces per annum as on March 31, 2024, and capacity utilization remains around 80-90%. The entity procures raw materials (mainly fabric, lining and accessories) from the local suppliers. CG exports readymade garments to Europe (contributed to ~80% of total revenue in FY24 vis-a-vis 60% in FY23) and remaining sales are through domestic market.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	44.87	40.21	24.54
PBILDT	2.68	3.35	3.39
PAT	3.40	6.85	5.63
Overall gearing (times)	1.84	1.20	0.98
Interest coverage (times)	1.84	2.25	6.65

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	15.00	CARE BB-; Stable / CARE A4

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	15.00	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (21-Feb-24)	1)CARE BB; Stable / CARE A4 (24-Nov-22)	1)CARE BB; Stable / CARE A4 (21-Dec-21)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (21-Dec-21)

ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Contact us

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About us:
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