

Everblue Apparel Limited

November 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	7.50	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities	3.76	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	11.26 (Rs. Eleven Crore and Twenty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Everblue Apparel Limited (hereinafter referred to as 'EBAL' or the 'Company') factors strong and resourceful promoter group with established market position of the Raymond group along with strategic importance and operational linkage of EBAL with the Raymond group. These strengths are partially tempered by EBAL's small scale of operations with a decline in FY21 operating performance due to Covid, albeit recovering gradually from Q2FY22 onwards. The financial risk profile continues to remain average.

Rating Sensitivities

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

- Improvement in operating margins to 8-10% on a sustained basis with positive cash flow generations
- Overall gearing below 1x on a continuous basis

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

- Any downward revision in the rating of parent Raymond Limited Limited [RL, rated CARE AA-;Stable/CARE A1+] and related party Raymond UCO Private Limited (RUDPL) which is also the primary customer

Detailed description of the key rating drivers

Key Rating Strengths

Part of well-established promoter group; with operational linkage and financial support from Raymond Ltd

EBAL is a wholly owned subsidiary of Raymond which is one of the leading players of worsted suiting business. RL is the flagship company of Raymond Group, which is a diversified conglomerate having interests in textiles, apparel retailing, toiletries, engineering files and tools, private aviation services and real estate. The promoter group led by Mr Gautam Singhania (Chairman & Managing Director of Raymond) has been closely involved in devising the overall business strategy of the group backed by an experienced management team. EBAL's entire income is derived from doing job work for Raymond UCO Denim Private Limited (RUDPL, an equal JV of Raymond Limited and UCO NV Belgium, a leading denim manufacturer for both domestic and international markets). RUDPL's revenues constituted ~8% of RL's consolidated revenue for FY21. Hence, it will continue to have strong operational linkages with its parent. RL has also extended support to EBAL on a continual basis in the form of interest-bearing unsecured loan to support the operations of the company.

Captive unit of RUDPL, an established denim player and strategic to Raymond

EBAL is a garmenting unit exclusively for RUDPL, wherein orders come in RUDPL and job work is done in EBAL unit to convert fabric provided by RUDPL into readymade garment for fixed charges. RUDPL is an established domestic and international denim player, with installed capacity of 56 million metre per annum (mmpa). Revenue contribution is split equally between the domestic and overseas markets. Key clients of RUDPL include Tommy Hilfiger, French Connection, Levis Strauss, DKNY, Celio, and Guess, Amazon basics etc. with new clients being added in domestic as well as international markets. CARE also takes into cognizance that in addition to RL directly extending support to its subsidiary EBAL, RL along with the other JV partner i.e. UCO NV has also continued to extend adequate financial support to RUDPL. RUDPL also has a track record of paying job work charges to EBAL timely. Thus counterparty risk is mitigated to a considerable extent, especially since RUDPL is the only customer of EBAL.

Business prospects expected to improve after facing severe disruptions during 1st and 2nd wave of covid

Covid related disruptions had led to a y-o-y degrowth of 33% in EBAL's revenue from FY20 to FY21. Due to the lockdown and major reduction in domestic orders at RUDPL, EBAL continued to operate at an average 65% capacity in FY21. Capacity utilization also remained lower than full during 2nd wave of covid. CARE estimates improved prospects for EBAL going forward

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

based on the expectation of industrial recovery, higher demand in festive season and continuation in the downward movement in Covid cases. This is also reflected by EBAL's plant operating at near full capacity levels since last few months. During H1FY22, EBAL clocked total of Rs. 40.37 crore. Currently EBAL has orders in hand upto April 2022 which ensures adequate revenue visibility in the medium term. CARE estimates EBAL's total revenue in FY22 to reach ~Rs. 90-100 crore.

Key Rating Weaknesses

Small scale of operations

The company has only one source of revenue stream i.e. jobwork and has a small scale of operations as reflected in its topline of Rs. 66 crore for FY21 (P.Y. Rs. 98 crore). On account of fixed job work nature of operations, PBILDT margins remain in the range of 4% to 5% with no susceptibility to raw material prices as fabric is provided by RUDPL. Manpower downsizing and cost optimization enabled EBAL to remain PBILDT positive during a challenging FY21 and also post slight improvement in margins.

Financial risk profile is constrained by modest debt metrics

EBAL's debt metrics continue to remain modest albeit Overall Gearing improved partially to 1.70x as on March 31, 2021 from 1.85x as on March 31, 2020. Due to above cost rationalization undertaken, EBAL's retained earnings during FY21 improved to Rs. 0.53 crore from Rs. 0.10 crore in FY20 despite significantly lower scale of operations. With accretion of profits amounting to Rs. 0.40 crore during H1FY22, Overall Gearing further improved at 1.61x as on September 30, 2021. Total outstanding debt of Rs. 20.86 crore as on September 30, 2021 comprises majorly of unsecured loan of Rs. 14 crore from promoter Raymond Limited, with the remaining comprising of term loan from bank and working capital borrowings. The loan from holding company is payable in April 2023 and bears an interest rate of 10.50%. Total Debt/GCA also remained modest at 13.14x for FY21 vis-à-vis 10.40x for FY20.

Liquidity indicator: 'Adequate'

EBAL has received regular funding support from its parent, (100% ownership by Raymond Limited, which is the flagship and holding company of the Raymond group). As on September 30, 2021, EBAL has modest free cash and bank balance of Rs. 0.12 crore. The average utilization of its working capital facilities is ~16% during the past 12 months ending September 2021, providing additional liquidity support in the form of unutilized limits. Current maturity of long-term debt as on March 31, 2021 stood at ~Rs. 1.33 crore, of which balance Rs. 0.72 crore is left to be repaid in remainder of FY22, which shall be met through internal accruals. There is no further borrowing proposed in the company. EBAL's operating cycle has been in the range of 10-15 days. Once an order is received, the order for fabric is placed. UCO provides the fabric and conversion of the fabric to garment takes ~3 weeks. The company's arrangement with RUDPL is such that payments are to be made within 45 days of invoice. This has resulted in comfortable collection period.

Analytical approach: Standalone, factoring linkages with parent company Raymond Limited

Applicable Criteria

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

[Rating Methodology: Notching by factoring linkages in Ratings](#)

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[Rating Methodology - Manufacturing Companies](#)

About the Company

Everblue Apparel Ltd (EBAL) is engaged in the business of converting fabrics into readymade garments on contractual basis. Established in 2001, EBAL is a 100% subsidiary of Raymond Limited (RL). It carries out job-work exclusively for Raymond UCO Denim Private Ltd (RUDPL) which is an equal JV between Raymond Ltd (RL) and UCO NV of Belgium. As per the job-work agreement with RUDPL, EBAL is required to manufacture, pack, label and store the garmenting products as per the specifications given by RUDPL. It issues production orders to EBAL from time to time and in consideration EBAL is paid job-work charges, which is decided mutually between EBAL and RUDPL based on the design and style of the garments to be manufactured. EBAL has an installed capacity of manufacturing 2,75,000 pieces per month. It is currently operating at close to full capacity.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	98.82	66.44	40.37
PBILDT	4.28	3.32	2.41
PAT	0.10	0.53	0.40
Overall gearing (times)	1.85	1.70	1.61
Interest coverage (times)	2.02	1.73	2.48

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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

Covenants of rated instrument / facility: 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		-	-	July 2024	3.76	CARE BBB; Stable
Fund-based - LT-Bank Overdraft		-	-	-	7.50	CARE BBB; Stable

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)Withdrawn (18-Nov-19)	1)CARE AA (SO); Stable (07-Dec-18)
2	Fund-based - LT-Term Loan	LT	3.76	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Mar-21)	-	-
3	Fund-based - LT-Bank Overdraft	LT	7.50	CARE BBB; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	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 instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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