

Libas Designs Limited

February 07, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	13.01	CARE BB+; Stable [Double B Plus; Outlook-Stable]	Reaffirmed
Total	13.01 [Rupees Thirteen crore and one lakh only]		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Libas Designs Limited (LDPL) are continues to be constrained by small albeit growing scale of operations, highly working capital intensive nature of operations with elongated collection and inventory holding leading and its presence in highly competitive & fragmented industry.

The aforesaid constraints are partially offset by the strengths derived from the experience of promoters in the designer garment industry, reputed clientele base along with established brand name, tie-up with ecommerce companies and moderate financial risk profile.

The ability of LDPL to increase its scale of operations maintain profit margins, capital structure and efficient management of working capital limits by reducing inventory and debtors level are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small albeit growing scale of operations: During FY18, LDL's total operating income has grown strongly by 84.77% from Rs.24.25 crore in FY17 to Rs.44.81 crore in FY18 owing to addition of high value orders from customers with strong marketing connects and continuous additions in the showrooms during the year. Nevertheless the scale of operations continues to be modest with GCA level of Rs.3.19 crore and moderate network base of Rs.22.82 crore as on March 31, 2018 which limiting its financial flexibility to meet any exigency and depriving it from benefits of economies of scale.

Highly working capital intensive nature of operations: The working capital cycle of LDL has remained highly elongated due to high amount of funds blocked in inventory and debtors. The inventory period remained significantly higher owing to higher raw material kept for processing and also high finished goods inventory kept at showrooms. Further, the collection period also remained high due to liberal credit period extended to its customer to maintain long-term business relationship. Hence, the working capital requirements of the company are met by credit extended by the creditors and higher utilization of working capital limits with frequent instances adhoc limits availed by the company.

Susceptibility of profit margins on account of volatile raw material prices: The company's raw material prices have been fluctuating and therefore the cost base remains exposed to any adverse fluctuations in the prices of key raw materials.

Presence in competitive and fragmented industry: LDL is into cloth designing for various occasions such marriage, birth-day, festivals season on behalf of various well established brands players which are dominated by numerous independent players which lead to high degree of fragmentation resulting into high level of competition in the segment. Due to high competition in the industry, the players in the industry do not have bargaining power with their customers and hence, players in this industry are operating at relatively low margins.

Key Rating Strengths

Experienced partners and reputed clientele base: During 1990, Mr. Nishant Mahimtura promoted Libas Fashions as a partnership firm and in 2004 it was incorporated as a private limited company with the name of Libas Designs Private Limited (LDL). Mr. Nishant Mahimtura is acting as Chairman & Managing Director and has around 35 years of experience in the customized garments looks after finance function and Mr. Riyaz Ganji is a Director, has around 22 years of experience and looked after marketing function of the company. LDL is into manufacturing of customized & readymade designer garments. It has customer base of well-known film personalities and television actors/actresses.

Established brand name, product variants and tie-up with ecommerce firms: LDL market its products under the brand name of Libas, Libas Riyaz Ganji, Libas Reshma Ganji and KNG Riyaz Gangji and it is a well-established fashion designer

¹Complete definitions of the ratings assigned are available at www.careratings.com an in other CARE publications.

brand name of around 22 years in Mumbai. Furthermore, it has tie-up with more than 80 Indian & International designers and have inventory of more 5000 designer wears to choose. LDL also has tie-up with online ecommerce portals.

Moderate financial risk profile: LDL's profit margins remained moderately comfortable owing to branded designer garments manufacturing undertaken by the company. The PBILDT and PAT margin stood in the range of 11.34%-13.90% and 4.24%-6.50% respectively during FY16-FY18. The capital structure remained comfortable with overall gearing stood at 0.53x as on March 31, 2018 (vis-à-vis 0.61x as on March 31, 2017) primarily on account of moderate reliance on debt. Owing to the same, the debt coverage indicators also remained moderately comfortable.

Analytical approach: Standalone

Applicable Criteria

[CARE's methodology for manufacturing companies](#)

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

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

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

About the Company

Libas Designs Limited (LDL) was originally established in the year 1990 as a partnership firm by Mr. Nishant Mahimtura & Mr. Riyaz Ganji which converted to private limited company in the year 2004. Later in the year September 2016 it got converted to public limited company and in the same year it also got listed on SME platform at NSE. LDL is a Mumbai based company engaged in manufacturing of customized designer garments and has its manufacturing unit situated in Kurla (West), Mumbai. LDL sells its products under the brand name of LIBAS, LIBAS RIYAZ GANGJI, LIBAS RESHMA GANGJI and KNG Riyaz Gangji. The company specializes in contemporary and ethnic men's and women's wear and its offering includes made to orders Sherwanis, light range of Indo-Westerns Kurtas, designer wedding suits, fine men's business suits, formal shirts and trousers. The company also operates 22 showrooms across the various cities in India viz. Mumbai, Delhi, Pune, Chennai, Kolkata, Lucknow, Hyderabad, Patna and Muzaffarpura and also has 2 showrooms in Dubai. The company also operates through e-commerce portals.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	24.25	44.81
PBILDT	2.90	6.23
PAT	1.04	2.91
Overall gearing (times)	0.61	0.53
Interest coverage (times)	2.60	3.29

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	March 2019	0.01	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	13.00	CARE BB+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	0.01	CARE BB+; Stable	-	1)CARE BB+ (06-Oct-17)	1)CARE BB (08-Jul-16)	-
2.	Fund-based - LT-Cash Credit	LT	13.00	CARE BB+; Stable	-	1)CARE BB+ (06-Oct-17)	-	-

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