

Libas Designs Limited
October 6, 2017

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	11.14	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE BB [Double B]
Total	11.14 (Rupees Eleven Crore and Fourteen Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Libas Designs Private Limited (LDPL) mainly factors in the increase in the scale of operations along with improvement in capital structure with equity infusion.

The rating continues to be constrained by small scale of operations, moderate debt coverage indicators, working capital intensive nature of operations with elongated collection and inventory holding period 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 comfortable profit margins and capital structure.

The ability of LDPL to increase its scale of operations along with improvement in solvency position and efficient management of working capital requirement are the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Weaknesses**

Small scale of operations: The entity has a track record of over two decades and although its TOI been increased at a CAGR of 19.90% during last three years ending FY17, its scale of operations remained small with TOI of Rs.24.25 crore and networth of Rs.19.90 crore as on March 31, 2017 thus limiting its financial flexibility and depriving it of benefits of economies of scale.

Moderate debt coverage indicators: Over the years the entity has been dependent on external funds to support the operations and with moderate profitability; debt coverage indicators of the entity although improving with improving profitability, remained moderately weak.

Working capital intensive nature of operations: The operations of the entity remained working capital intensive in nature on account of higher credit period extended to its customer to maintain long-term business relationship coupled with high inventory holding. The working capital requirements of the firm are met by credit extended by the creditors and working capital limits, utilization of which remained high.

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 low margin.

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

*Issuer did not cooperate; Based on best available information

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 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 has tie-up with online ecommerce portals.

Comfortable profitability and solvency position: The profitability level of the entity has been improving over the years and remained at moderately comfortable level in the range of 7.22% -11.95% during last three years ending FY17. Further over the years entity has been dependent on external funds to support the business however during FY17 the entity got listed in NSE Emerge platform thus raising funds for working capital requirement and store expansion. Same resulted in comfortable capital structure with overall gearing falling below unity as on March 31, 2017.

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 Fashions, as a partnership firm was started in the 1990s, and later in 2004 was converted to private limited company, by Mr. Nishant Mahimtura & Mr. Riyaz Gangji. LDPL is a Mumbai based company engaged in manufacturing of customized designer garment and has its plant situated in Kurla (West), Mumbai admeasuring 11,900 sq. feet and employ around 57 workers. LDPL sells its products under the brand name of LIBAS. LDPL has its showrooms present in prime location spread across Mumbai, Pune, Ludhiana and Dubai.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	21.48	24.25
PBILDT	2.44	2.90
PAT	0.91	1.04
Overall gearing (times)	2.12	0.61
Interest coverage (times)	2.50	2.60

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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About CARE Ratings:

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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	-	-	-	0.14	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	11.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.14	CARE BB+; Stable	-	1)CARE BB (08-Jul-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	11.00	CARE BB+; Stable	-	-	-	-

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