

Orient Craft Limited

February 07, 2020

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	324.01	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	700.00	CARE A3 [A Three]	Revised from CARE A4+; Stable (A Four Plus; Outlook: Stable)
Total	1024.01 (Rupees One thousand twenty-four crores and one lakhs only)		

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Orient Craft Limited takes into account improvement in its financial performance during FY19 and H1FY20 marked by increased scale of operations, improved profitability and solvency parameter. The rating also takes into cognizance of adequate liquidity in place.

Furthermore, the ratings continue to derive strength from its established track record as one of the leading Indian ready-made garment manufacturer and exporter, experienced promoters, established relationship with reputed global clientele. These rating strengths, are however, partially constrained by susceptibility to foreign exchange fluctuation risk & continuing exposure to the group companies.

Going forward, the ability of the company to profitably scale-up the operations and improve its capital structure would remain the key rating sensitivities. Further, the lower cost advantage and enhanced capacity w.r.t Jharkhand project and timely materialization of divestment/asset monetization plans in group companies would be key monitorable.

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations above Rs.2500 crore backed by operational performance.
- Sustained improvement in operational performance in terms of PBILDT margin above 10%
- Significant reduction in debt through asset monetization

Negative Factors

- Increase in exposure to group entities above Rs.200 crores.
- Deterioration in scale of operations below Rs.1750 crores.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experienced promoters

Orient Craft Limited (OCL) promoted by Mr. Sudhir Dhingra and Mr. K.K. Kohli has a long track record of around four decades in this business. Over the years, OCL has emerged as a leading Indian ready-made garment manufacturer and exporter. Mr. Sudhir Dhingra, is supported by other professionals having vast experiences in the same line of business. The company has successfully established his brand name at global level and developed a healthy relationship with suppliers and customers.

Established relationship with reputed global clientele

OCL has established relationships over the years with large international fashion houses with whom the company has been dealing for more than a decade now. It exports its products to leading international fashion houses and retail chains, predominantly in the United States and Europe. The company sells majority of its product in the developed international markets such as North America and Europe which contributes ~80% to OCL's revenue. Top five customers contributed 43.64% to total sales in FY19 (PY: 51.22%). Some of the prominent customers include, The Gap Group Inc., Marks and Spencer PLC, American Eagle Outfitters & Macys Merchandising.

Moderate financial risk profile

During FY19, the company registered total operating income of Rs. 2,317 crore (PY:Rs 1,967 crores) and it witnessed a 17.8% increase on account of higher volume (FY19 36.22 million against 33.72 million during FY18), and higher per piece rate. The average selling price per garment increased from Rs.529 during FY18 to Rs.533 during FY19. Further, the company witnessed

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

increase in PBILDT margin to 7.82% (PY: 5.71%). The company registered PAT margin of 1.25% in FY19 (PY: 0.63%). The company has leveraged capital structure as exhibited by overall gearing (including creditors against LC) of 2.76x as on March 31, 2019 (PY: 3.50x). Coverage indicators like interest covering were at 1.65x in FY19 (PY: 0.99x) and total debt to GCA was at 16.70x as on 31-Mar-19 (PY: 26.98x) though improved during FY19, continues to remain moderate. The company has working capital intensive nature of business operations as indicated by an elongated working capital cycle of 109 days in FY19 (PY: 132 days) primarily owing to high inventory holding days of 104 days (PY: 118 days). The company manufactures wide variety of products which involve long manufacturing process. This leads to high inventory holding days majorly contributed by higher work in progress and raw material holding.

H1FY20 results: The company has registered total operating income of Rs. 962.34 crore in H1FY20 with PBILDT margin of 7.73% in H1FY20 as against 7.82% in FY19.

Key Rating Weaknesses

Exposure to foreign exchange fluctuation risk

Exports constitute more than 90% of OCL's revenues. The company is exporting mainly to U.S.A. and Europe. Though the company enjoys natural hedge against forex fluctuation from its imports but the same is limited to 10% of exports exposing it to foreign exchange fluctuation risk. As a policy, OCL hedges remaining net forex position. However, any significant adverse movement in the foreign exchange might impact OCL's profitability.

Exposure in group companies

OCL has deployed funds in group companies in the form of equity investments (Rs. 105.22 cr as on March 31, 2019) and loans and advances (Rs. 48.13 cr as on March 31, 2019), which forms close to 47% of the tangible net worth as on March 31, 2019. Given the significant exposure towards group companies, the timely realization of loan and advances and also of the realization of benefits from equity investments in the group entities shall be important.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.128.47 Crore as on March 31, 2019 (Rs.29.07 cr as on December 31, 2019). Its capex requirements are routine and expected to be funded using internal accruals. Its bank limits are utilized to the extent of 86.72% for last 12 months ending December, 2019. The current ratio has remained adequate at 1.29x as on 31-Mar-19.

During the month of November and December, there were instances of overdue (less than 30 days) in the pre-shipment credit facility availed by OCL reported by lenders. On account of extended winters in the US & UK and higher inventories, some of OCL's clients had requested to delay the shipment. This resulted in delay in receiving the export documents which led to overdue in packing credit limits.

Moreover, OCL had adequate liquidity in form of free cash and bank balance for the months ended November and December 2019.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

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

About the company

Orient Craft Ltd (OCL), promoted by Mr. Sudhir Dhingra and Mr. K.K. Kohli in Feb 1978, is in the business of manufacturing ready to wear garments and home furnishings. The company is one of India's leading manufacturers and exporters of premium ready-to-wear garments. The company exports its products to leading international fashion houses and retail chains, predominantly in the United States and Europe. OCL has established relationships over the years with leading retailers of the world, such as Marks and Spencer's, The Gap Group, Macys Merchandising etc. which have been giving it repeat orders. OCL is also recognized by the Government as a four Star export house.

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Income from Operations	1966.85	2316.95
PBILDT	112.37	181.2
PAT	12.46	28.94
Overall gearing (times)	3.50	2.76
Interest Coverage	0.99	1.65

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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
Term Loan-Long Term	-	-	March, 2026	324.01	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	175.00	CARE A3
Fund-based - ST-EPC/PSC	-	-	-	525.00	CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	324.01	CARE BBB-; Stable	1)CARE BB+; Stable (31-Dec-19)	1)CARE BBB; Stable (11-Feb-19)	1)CARE BBB; Stable (23-Mar-18) 2)CARE BBB+; Negative (20-Jul-17)	1)CARE BBB+; Stable (22-Feb-17)
2.	Non-fund-based - ST-BG/LC	ST	175.00	CARE A3	1)CARE A4+ (31-Dec-19)	1)CARE A3+ (11-Feb-19)	1)CARE A3+ (23-Mar-18) 2)CARE A3+ (20-Jul-17)	1)CARE A3+ (22-Feb-17)
3.	Fund-based - ST-EPC/PSC	ST	525.00	CARE A3	1)CARE A4+ (31-Dec-19)	1)CARE A3+ (11-Feb-19)	1)CARE A3+ (23-Mar-18) 2)CARE A3+ (20-Jul-17)	1)CARE A3+ (22-Feb-17)

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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