

Orient Craft Limited

February 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	367.86 (reduced from 426.15)	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Short Term Bank Facilities	700.00 (enhanced from 625.00)	CARE A3+ [A Three Plus]	Reaffirmed
Total Facilities	1067.86 (Rupees One Thousand Sixty Seven Creore & Eighty Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Orient Craft Limited (OCL) 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. The ratings also factors in moderate financial risk profile and liquidity profile of the company during FY18 (refers to period April 01 to March 31) & 9MFY19 (refers to period April 01 to December 31). These rating strengths, are however, partially constrained by susceptibility to foreign exchange fluctuation risk, continuing exposure to the group companies and risks associated with the expansion project.

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 developments w.r.t Jharkhand project and timely materialization of divestment/asset monetization plans in group companies would be key monitorable.

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 extensive experiences in the same line of business.

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. The company sells majority of its product in the developed international markets such as North America and Europe. Some of the prominent customers include, The Gap Group Inc., Marks and Spencer PLC, American Eagle Outfitters, Macys Merchandising & ANN Taylor Inc. etc which together contributed 51.22% to total sales of the company in FY18 (PY: 51.12%).

Moderate financial risk profile

The company has moderate financial risk profile, exhibited by relatively large scale of operations and moderate profitability coupled with leveraged capital structure. The company has registered total operating income of Rs. 1,967 crore in FY18 with PBILDT margin to 5.71%, moderated from 7.31% in FY17 largely on account of higher employee cost and manufacturing expenses coupled with lower export incentives. However, the company registered improvement in PBILDT and PAT margin to 7.23% and 1.16% in 9MFY19 largely attributable to depreciation of rupee. Further, the company witnessed improvement in the overall gearing (including creditors against LC) to 3.02x as on December 31, 2018 from 3.50x as on March 31, 2018.

Average liquidity profile

The company has working capital intensive nature of business operations as indicated by an elongated working capital cycle of 132 days in FY18 (PY: 119 days) primarily owing to high inventory holding days of 118 days (PY: 103 days). The working capital requirements were met predominantly through bank borrowings and partially through elongated creditor days. The average utilization of working capital limits stood at 91% for the trailing 12 months ended Dec 2018. Further, the company had cash equivalents of Rs. 76.06 crore as on March 31, 2018.

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 based on forex market conditions. However, any significant adverse movement in the foreign exchange might impact OCL's profitability.

Exposure to group companies

OCL has deployed funds in group companies in the form of equity investments (Rs. 105.54 cr as on March 31, 2018) and loans & advances (Rs. 45.75 cr as on March 31, 2018), which forms close to 50% of the tangible net worth as on March 31, 2018. 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.

Exposure to risks associated with the expansion project

The company planned to expand the footprints to Ranchi, Jharkhand and shall house 1500 machines to manufacture ready to wear garments. The project would entail substantial labour arbitrage and other fiscal benefits to the company. The project involves total outlay of Rs. 40.00 crore to be funded by debt of Rs. 30.00 crore and internal accruals of Rs. 10.00 crore which is expected to be spent over the period of 2 years. The COD of the expansion project is June 2019 which has been revised from June 2018. The initial stage of the project combined with the untied debt exposes the company to project risk.

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)	FY17 (A)	FY18 (A)
Total operating income	2178.87	1966.85
PBILDT	159.34	112.37
PAT	21.84	12.46
Overall gearing (times)	3.48	3.50
Interest coverage (times)	1.51	0.99

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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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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
Term Loan-Long Term	-	-	March, 2026	367.86	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 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.	Term Loan-Long Term	LT	367.86	CARE BBB; Stable	-	1)CARE BBB; Stable (23-Mar-18) 2)CARE BBB+; Negative (20-Jul-17)	1)CARE BBB+; Stable (22-Feb-17)	1)CARE BBB+ (28-Jan-16)
2.	Non-fund-based - ST-BG/LC	ST	175.00	CARE A3+	-	1)CARE A3+ (23-Mar-18) 2)CARE A3+ (20-Jul-17)	1)CARE A3+ (22-Feb-17)	1)CARE A3+ (28-Jan-16)
3.	Fund-based - ST-EPC/PSC	ST	525.00	CARE A3+	-	1)CARE A3+ (23-Mar-18) 2)CARE A3+ (20-Jul-17)	1)CARE A3+ (22-Feb-17)	1)CARE A3+ (28-Jan-16)

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