

## Orient Craft Limited

February 22, 2017

### Ratings

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating action
Long-term Bank Facilities	351.73 (reduced from 388.75)	<b>CARE BBB+; Stable (Triple B Plus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	700 (increased from 650 )	<b>CARE A3+ (A Three Plus)</b>	<b>Reaffirmed</b>
<b>Total Bank Facilities</b>	<b>1,051.73</b> <b>(Rupees One Thousand Fifty One crore and Seventy Three lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed rationale and key rating drivers

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 and established relationship with reputed global clientele. The ratings, however, remain constrained by the moderate financial risk profile with working capital intensive operations, susceptibility to foreign exchange fluctuation risk and exposure to the group companies.

Going forward, the ability of the company to profitably scale-up its operations, improve its capital structure and any significant capex along with corresponding funding would remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters and established track record:** OCL was promoted by Mr Sudhir Dhingra and Mr K K Kohli and has a long track record of over three decades in the garment manufacturing business. Over the years, OCL has emerged as a leading Indian ready-made garment manufacturer and exporter.

**Established relationship with reputed global clientele:** The company has long relationships with leading international fashion houses with whom the company has been dealing for more than a decade. The top five customers contributed approximately 51% of sales in FY16 (refers to the period April 01 to March 31). The company sells majority of its product in the developed international markets such as North America and Europe (the two regions together contributed approximately 84% of OCL's revenue during FY16; PY: 88%). Furthermore, the product portfolio is skewed towards high value-added garments leading to higher realizations.

#### Key Rating Weaknesses

**Moderate financial risk profile:** OCL achieved 17% growth in net sales in FY16 but witnessed moderation in PBILDT% to 7.03% (PY: 8.36%) mainly on account of rise in employee benefit expenses which increased from 19% of operating income (Rs.321 crore) to 23% (Rs.462 crore) due to increase in minimum wages in Haryana in November 2015.

The reduction in total debt from Rs.859 crore as on March 31, 2015 to Rs.819 crore as on March 31, 2016 along with accretion of profits led to improvement in overall gearing to 2.76x (PY: 3.12x). The interest coverage ratio was 1.37x in FY16 (PY: 1.40x). Furthermore, the liquidity profile remained intact with current ratio of 1.20x as on March 31, 2016 (PY:

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

1.23x) and free cash and bank balances of Rs.49 crore as on March 31, 2016 providing further liquidity support.

**Working capital intensive operations:** The company's operations are working capital intensive as indicated by an elongated working capital cycle of 129 days in FY16 (PY: 135 days) primarily owing to high inventory holding period of 119 days (PY: 121 days). The average working capital utilization for the 12 month period ending November 30, 2016 was high at 86%.

**Susceptibility to foreign exchange fluctuation risk:** The exports constitute more than 90% of OCL's revenues. Though it enjoys natural hedge from imports, but the same is limited to about 10% of exports exposing it to foreign exchange fluctuation risk. Though, as a policy, OCL hedges 85% of the net forex position, any significant adverse movement in the foreign exchange might impact the profitability.

**Exposure to the group companies:** OCL has deployed funds in the form of equity investments (Rs.73.82 crore as on March 31, 2016) and loans and advances (Rs.48.13 crore as on March 31, 2016) in its group companies, which forms close to 46% of the tangible networth as on March 31, 2016. There has been no incremental outflow from OCL in these companies during the past 4 years and the management does not envisage any further deployment.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[Criteria for Short-term Instruments](#)

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

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

#### Background

OCL, incorporated in February 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's value-added products cater to the middle and higher income segments of its markets.

During FY16 (refers to the period April 01 to March 31; Audited), OCL earned PAT of Rs.19.06 crore on operating income of Rs.2,003.28 crore against PAT of Rs.5.33 crore on operating income of Rs.1,705.73 crore in FY15. As per unaudited results of H1FY17 (refers to the period April 01 to September 30), the company earned PAT of Rs.9.35 crore (H1FY16: Rs.8.63 crore) on total income of Rs.854 crore (H1FY16: Rs.903 crore).

**Status of non-cooperation with previous CRA:** Not Applicable

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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
Term Loan-Long-term	-	-	Q3FY2021	351.73	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Term Loan-Long-term	LT	351.73	CARE BBB+; Stable	-	1)CARE BBB+ (28-Jan-16)	1)CARE BBB+ (29-Oct-14)	1)CARE BBB- (29-Jan-14)
2.	Non-Fund-based - ST-BG/LC	ST	175.00	CARE A3+	-	1)CARE A3+ (28-Jan-16)	1)CARE A3+ (29-Oct-14)	1)CARE A3 (29-Jan-14)
3.	Fund-based - ST-EPC/PSC	ST	525.00	CARE A3+	-	1)CARE A3+ (28-Jan-16)	1)CARE A3+ (29-Oct-14)	1)CARE A3 (29-Jan-14)

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CIN - L67190MH1993PLC071691