

Orient Craft Limited (Revised)

March 23, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term bank facilities- Term Loan	426.15 (reduced from 426.21)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Outlook revised from negative
Short term Bank Facilities (Non-fund based)	175.00	CARE A3+ (A Three Plus)	Reaffirmed
Short-term Bank Facilities (Fund-based)	450.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	1051.15 (Rs. One Thousand Fifty One Crore & Fifteen Lacs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Orient Craft Limited (OCL) factors in moderation in operating profitability & debt coverage indicators and higher than envisaged leverage indicators during FY17 (refer to period April 01 to March 31).

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 and average financial risk profile. The strengths, are however, partially constrained by the working capital intensive nature of business operations, risks associated with the expansion project, susceptibility to foreign exchange fluctuation risk, and continuing exposure to the group companies.

Going forward, the ability of the company to successfully implement the project, profitably scale-up the operations and improve its capital structure would remain the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Strengths*****Moderation in key indicators, though financial risk profile continues to be average***

OCL has registered moderation in key indicators during FY17 (A) marked by subdued operating profitability, leveraged capital structure and average debt coverage indicators. The company achieved marginal growth of 3.42% in net sales to Rs. 1906 crore during FY17 (PY: Rs. 1843 crore) largely attributable to higher volume sales. However, the company witnessed moderation in PBILDT margin to 7.31% (PY: 9.01%) mainly on account of increased labor cost and manufacturing expenses, aggravated by unavailability of labor during the demonetization period. The subdued operating profitability continued as per H1FY18 (Prov.) and PBILDT margin stood at 7.53%.

The company reported higher than envisaged overall gearing (on net debt basis) of 3.23x as on March 31, 2017 (PY: 3.22x). Though the overall gearing improved to 3.01x times (H1FY18 Prov.) it continued to be high. Further the total net debt to gross cash accrual stood high at 18.61x as on March 31, 2017 (PY: 11.95x). The moderation was largely because of higher long term working capital borrowings coupled with lower cash accruals in FY17. Furthermore, the interest coverage ratio declined to 1.51x in FY17 (PY: 1.72x), largely due to lower operational profitability. The interest coverage stood subdued at 1.57x during H1FY18.

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

Experienced promoters and established track record of operations

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.

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 which together contributed approx. 87% of OCL's revenue during FY17 (PY: 89%). Some of the prominent customers include, The Gap Group Inc., Marks and Spencer PLC, American Eagle Outfitters & Macys Merchandising.

Key Rating Weaknesses***Working capital intensive nature of business operations***

The company has working capital intensive nature of business operations as indicated by an elongated working capital cycle of 119 days in FY17 (PY: 121 days) primarily owing to high inventory holding days of 103 days (PY: 113 days). The company manufactures wide variety of products leading to elongated inventory holding period. The working capital requirements were met largely through bank borrowings as indicated by average utilization of 90% of working capital limits for the trailing 12 months ended Dec 2017. Further, the WC utilization increased during the quarter ended Dec 2017 and stood high at 99%.

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. 105.54 Crore as on March 31, 2017) and loans and advances (Rs. 40.45 Crore as on March 31, 2017), which forms close to 50% of the tangible net worth as on March 31, 2017. However, there has been no incremental outflow from OCL in these companies during the past 3 years. 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 has planned to expand the capacity by putting up a project in Ranchi Jharkhand and shall house 2200 machines to manufacture ready to wear garments. The project would entail substantial labour arbitrage and other fiscal benefits to the company. The project total outlay is Rs. 104 crore to be funded by debt of Rs. 45.50 crore and internal accruals of Rs. 58.50 crore. The relatively large size and initial stage of the project combined with the untied debt exposes the company to project risk.

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)	FY16 (A)	FY17 (A)
Total operating income	2041.97	2178.87
PBILDT	184.04	159.34
PAT	42.79	21.84
Overall gearing (times)	3.40	3.48
Interest coverage (times)	1.72	1.51

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	426.15	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	175.00	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	450.00	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 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.	Term Loan-Long Term	LT	426.15	CARE BBB; Stable	1)CARE BBB+; Negative (20-Jul-17)	1)CARE BBB+; Stable (22-Feb-17)	1)CARE BBB+ (28-Jan-16)	1)CARE BBB+ (29-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	175.00	CARE A3+	1)CARE A3+ (20-Jul-17)	1)CARE A3+ (22-Feb-17)	1)CARE A3+ (28-Jan-16)	1)CARE A3+ (29-Oct-14)
3.	Fund-based - ST-EPC/PSC	ST	450.00	CARE A3+	1)CARE A3+ (20-Jul-17)	1)CARE A3+ (22-Feb-17)	1)CARE A3+ (28-Jan-16)	1)CARE A3+ (29-Oct-14)

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