

## Orient Craft Limited

December 31, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	367.86	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook Stable)
Short Term Bank Facilities	700.00	CARE A4+ (A Four Plus)	Revised from CARE A3+; (A Three Plus)
<b>Total Facilities</b>	<b>1067.86</b> <b>(Rupees One Thousand Sixty Seven Crore &amp; Eighty Six Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Orient Craft Limited (OCL) take into account overdue of less than 30 days in the Packing Credit facility owing to delay in October 2019 shipment which happened in late November and early December 2019.

The ratings continue to take into account susceptibility to foreign exchange fluctuation risk, continuing exposure to the group companies and risks associated with the expansion project. However, these rating weaknesses are partially offset by its established track record as one of the leading Indian ready-made garment manufacturer and exporter, experienced promoters, established relationship with reputed global clientele.

### Rating Sensitivities

#### Positive Factors

- OCL's ability to improve upon its operating profitability margin to more than 8% on a sustained basis
- Improvement in capital structure with overall gearing (including acceptances) not more than 2.00x

#### Negative Factors

- Sustained deterioration in the total operating income of the company below Rs 1500 crore.
- Sustained deterioration in PBILDT margin below 5%.

### Detailed description of the key rating drivers

#### 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.

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## 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

### ***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.

### **Liquidity : Stretched**

The liquidity of the company is stretched marked by its delay in the payment of packing credit facilities to the various lenders (varying from 2 days to 15 days). Moreover, 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.

**Analytical approach:** Standalone

### **Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

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

[CARE's methodology for Factoring Linkages in Ratings](#)

### **About the Company**

Orient Craft Ltd (OCL), incorporated in 1978, is in the business of manufacturing ready to wear garments and home furnishings. The company exports of premium ready-to-wear garments to leading international fashion houses and retail chains, predominantly in the United States and Europe.

OCL was established by Mr. Sudhir Dhingra in 1972 as a proprietorship which later changed its constitution to a private limited company in 1978 with investments from Mr. K.K. Kohli. Mr. Dhingra, a law graduate, is in the field of manufacturing and export of garments and has vast experience of around four decades in this business. 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. OCL's value-added products cater to the middle and higher income segments of its markets, namely USA and Europe.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>	<b>9MFY19 (UA)</b>
Total operating income	2178.87	1966.85	1474.32
PBILDT	159.34	112.37	106.56
PAT	21.84	12.46	17.07
Overall gearing (times)	3.48	3.50	3.02
Interest coverage (times)	1.51	0.99	1.60

A: Audited

**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	367.86	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	175.00	CARE A4+
Fund-based - ST-EPC/PSC	-	-	-	525.00	CARE A4+

### 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	367.86	CARE BB+; Stable	-	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 A4+	-	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 A4+	-	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](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.

## Contact us

### Media Contact

Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – mradul.mishra@careratings.com

### Analyst Contact

Group Head Name – Mr Nitesh Ranjan  
Group Head Contact no.- +91-11-4533 3239  
Group Head Email ID- nitesh.ranjan@careratings.com

### Business Development Contact

Name: Mrs Swati Agrawal  
Contact no. : +91-11-4533 3200  
Email ID: swati.agrawal@careratings.com

### About CARE Ratings:

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