

Orient Craft Ltd.

July 20, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	426.21 (enhanced from 351.73)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed with change in outlook from stable
Short-term Bank Facilities	625 (reduced from 700)	CARE A3+ (A Three Plus)	Reaffirmed
Total	1,051.21 (Rupees One Thousand Fifty One crore and Twenty-One laks only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from Orient Craft Limited's (OCL) established track record as one of the leading Indian ready-made garment manufacturers and exporters, experienced promoters and established relationship with reputed global clientele. The strengths, 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 sales realization & capital structure and any significant capex along with corresponding funding would remain the key rating sensitivities.

Outlook: Negative

The revision in the outlook reflects OCL'S lower than envisaged debt protection metrics in the medium term largely driven by higher working capital debt. During FY17 (refers to the period April 1 to March 31 - on provisional basis), operating performance was impacted by higher employee & freight costs, demonetization coupled with lower sales realization. The outlook may be revised to Stable in the medium term with improvement in profitability margins & debt protection metrics along with higher sales realization.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experienced promoters

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. The company has established 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.

Moderate Financial Profile

During FY17 (Provisional) OCL achieved 4% growth in net sales to Rs.1913.38 crore largely attributable to higher volume sales. However, the sales realization declined during the same period. The company witnessed moderation in PBILDT margin in FY17 (Provisional) mainly on account of increased labor cost and freight cost. The same was aggravated by the unavailability of labor during the demonetization period. However, higher forex fluctuation gain supported the PAT margin to 0.70% during FY17 Provisional (PY: 0.93%).

As on March 31, 2017, the term debt to GCA increased to 8.11x (PY: 6.77x) owing to long term working capital loan taken by the company and lower gross cash accruals. The interest coverage ratio was 1.24 times in FY17 Provisional (PY: 1.37 times), declined because of the moderation in PBILDT margin. Furthermore, the liquidity profile little improved with current ratio of 1.25 as on March 31, 2017 Provisional (PY: 1.20). The company is implementing a project in Jharkhand which would entail substantial savings on employee cost and other fiscal benefits which would aid in improved profitability and financial risk profile going forward.

Key Rating Weaknesses

Working capital intensive operations

The company's operations are working capital intensive as indicated by an elongated working capital cycle of 129 days in FY17 Provisional (PY: 129 days) primarily owing to high inventory holding period of 112 days (PY: 119 days). The collection period of the company stood at 42 days whereas creditor's period stood at 25 days. The average working capital utilization for the 12 month period ending April 30, 2017 was high at 85%.

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

Exposure 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 in group companies

OCL has deployed funds in the form of equity investments (Rs.73.82 crore as on March 31, 2017) and loans and advances (Rs.48.13 crore as on March 31, 2017) in its group companies, which forms close to 46% of the tangible net worth as on March 31, 2017. 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 \(Non-Financial Sector\)](#)

About the Company

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 FY17 (refers to the period April 01 to March 31; Provisional), OCL earned PAT of Rs.15.34 crore on operating income of Rs.2121.57 crore against PAT of Rs.19.06 crore on operating income of Rs.2003.28 crore in FY16.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (P)
Total operating income	2003.28	2121.57
PBILDT	140.81	112.12
PAT	19.06	15.34
Overall gearing (times)	2.76	2.93
Interest coverage (times)	1.37	1.24

A: Audited, P: Provisional

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. 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**

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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	September, 2012	-	March, 2024	426.21	CARE BBB+; Negative
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 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	426.21	CARE BBB+; Negative	CARE BBB+; Stable (22-Feb-17)	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+	CARE A3+ (22-Feb-17)	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	450.00	CARE A3+	CARE A3+ (22-Feb-17)	1)CARE A3+ (28-Jan-16)	1)CARE A3+ (29-Oct-14)	1)CARE A3 (29-Jan-14)

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