

Rating Rationale

25 Sep 2019

CBC Fashions (Asia) Private Limited

Brickwork Ratings upgrades ratings for the Bank Loan Facilities of Rs. 58.81 Crores of CBC Fashions (Asia) Private Limited. ('CBC' or the 'Company')

Particulars

| Facility** | Amount (Rs Cr) | | Tenure | Rating* | |
|---------------------------|--------------------|-------------------|---|-----------------------|------------------------|
| | Previous (Rs. Crs) | Present (Rs. Crs) | | Previous | Present |
| Fund Based | | | | | |
| Cash Credit | 6.00 | 10.00 | Long Term | BWR BB+/Stable | BWR BBB-/Stable |
| Term Loan | 7.12 | 8.81 | | | |
| Export Packing Credit# | 32.00 | 28.00 | Short Term | BWR A4+ | BWR A3 |
| Standby Line of Credit | 2.00 | 2.00 | | | |
| Foreign Bills Discounting | 10.00 | 10.00 | | | |
| Total | 57.12 | 58.81 | INR Fifty Eight Crores And Eighty One Lakhs Only | | |

*Please refer to BWR website www.brickworkratings.com for definition of the ratings ; # Two Way Interchangeability between EPC and FBD

** Details of Bank facilities are provided in Annexure I

Rating Action/Outlook

The ratings upgrade factors the improvement in operational and financial performance of the company. The ratings continue to factor the promoters' extensive experience in the textile industry, established relationships with customers and locational advantages. The ratings remain constrained by the moderate financial risk profile, susceptibility of profitability to fluctuations in raw material prices, intense competition in the highly fragmented textile processing industry, geographical and customer concentration and exposure to forex fluctuations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **CBC Fashions (Asia) Pvt Ltd's** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the revenues and profit show sustained improvement leading to improvement in cash accruals and strengthening of financial risk profile. The outlook may be revised to Negative if the revenues go down, profit margins show lower than expected figures, working capital cycle is stretched pressurizing the liquidity position or any major debt funded capital expenditure leads to stress on the financial risk profile of the company. .



Key Rating Drivers

Credit Strengths:

Experienced management and established track record

CBC has an operational track record of over three decades in the textile industry. The company benefits from the promoters' extensive experience in the textile industry, understanding of the industry dynamics and established relationships with customers and suppliers.

Strong Customer Base

Over the years, the promoters have fostered relationships with leading domestic and global apparel retailers, establishing a strong client base. The company has been getting repeat business from these clients on a sustained basis, which has facilitated growth in its scale of operations. This also reflects favourably on the company's track record and competitive positioning in the apparel sector. Some of the key clients are OVS Spa (Italy), Award Primark Stores Ltd (United Kingdom), Cortefiel Commercial SA (Switzerland), License factory GMBH (Germany) and Lifestyle International Pvt Ltd (India). The top 5 clients contribute ~53% of total sales.

Locational advantages

The company is located at Tirupur, which is a major textile hub. This provides location specific advantages in terms of easy accessibility to raw materials, clientele and availability of labour.

Credit Challenges:

Moderate financial risk profile

CBCFPL's financial risk profile is moderate with modest revenue, thin profitability, high gearing and moderate debt protection metrics. Net sales improved to Rs.155.45 Crs for FY18 as against Rs. 137.53 Crs in FY17. PAT, though improved, was low at Rs. 1.30 Crs in FY18 as against Rs. 0.50Crs during FY 17. Interest coverage was moderate at 1.78 times as on 31 Mar 2018 (1.63 times as on 31 Mar 2017). Debt coverage was 1.16 times as on 31 Mar 2018 (0.99 times as on 31 Mar 2017). Tangible Net Worth was moderate at Rs. 19.32Crores as on March 31, 2018. Gearing was high at 3.40 times as on 31 Mar 2018.

Susceptibility of profitability to volatility in raw material price

Textile Industry's profitability margins are highly correlated with fluctuations in raw material prices and are susceptible to various risks like need for adherence to quality, availability during a particular period etc.,

Highly competitive nature of the industry and modest scale of operations

The company operates in a highly competitive business environment, facing stiff competition from both organised and unorganised players. The intense competition in the industry continues to limit its bargaining power/ pricing ability, thereby constraining its margins. Further, the scale of operations of the company is comparatively modest.

Geographical and customer concentration

The top 5 customers viz. OVS Spa (Italy), Award Primark Stores Ltd (United Kingdom), Cortefiel Commercial SA (Switzerland), License factory GMBH (Germany) and Lifestyle International Pvt Ltd (India) contribute ~53% of company's revenue. Revenues and earnings depend on the performances of its key customers, apart from other factors such as regulations and duty structures across markets. The risk is



mitigated to an extent by the established relationships with its key clientele and addition of new customers in recent fiscals.

Exposure to forex fluctuations

Profitability is exposed to forex rate fluctuation as more than 50% of revenue is derived from exports. However, forex risk is mitigated by way of natural hedging as the company has availed packing credit facility in foreign currency. Also, the company has availed forward contract to mitigate forex risks

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has considered the standalone financials of **CBC Fashions (Asia) Pvt Ltd** and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

Rating Sensitivities

Positive:

- Sustained improvement in scale of operations
- Specific credit metrics that could lead to an upgrade of CBC's ratings include (1) Total Debt/TNW below 2.75 times on a sustained basis, (2) DSCR and ISCR greater than 2.0 times on a sustained basis.

Negative :

- Gearing level exceeding 3.50 times
- Decline in profitability - Operating margin below 5.00% and net margin below 0.50%, due to pricing pressures in a highly competitive industry

Liquidity Position: Stretched

Almost 100% of working capital has been utilized, reflecting the working capital intensity of operations. Current Ratio was moderate at 1.06 times as on March 31, 2017 and 1.13 times as on March 31, 2018. Cash and Cash Equivalents were Rs.1.40Cr as on March 31, 2019 (Provisional). Debt Repayments for FY20 & FY21 are in the range of Rs.1.45Cr to Rs.2.01Cr respectively which are expected to be serviced from cash accruals of Rs.3.15Cr in FY19 (Prov) and Rs.5.91Cr in FY20 (Projected)

About the Company

CBC Fashions (Asia) Private Limited is a Govt of India recognized export house, engaged in manufacturing knitted garments for domestic as well as global markets. It is located at Tirupur, Tamil Nadu. The business was started in the name of M/s. Chitralaya Banian Company in 1976. In 2003, M/s. CBC Fashions was established for manufacturing of knitted garments for the global market. In 2008 the parent company M/s Chitralaya Banian Company and the export division M/s. CBC Fashions merged into CBC Fashions (Asia) Private Limited. Present capacity is 600 machines and 7 lakh garments/ month. CBC is a vertically integrated organization having scattered manufacturing facilities which are segregated based on their production operations. These facilities include garment production units, quality testing labs, cutting division, printing division and embroidery division. CFAPL manufactures a range of apparel (Knitted/woven garments) for men, women and kids. Some of their renowned customers are Ova Spa (Italy), Primark Stores Limited (UK), Star Design Group (USA), Lifestyle India Pvt Ltd (India) and Walmart India Pvt Ltd (India). In FY19, around 50% of income was derived through exports and the remaining through domestic sales. The company is



WRAP, ISO 9001:2000, Oeko Tex 100 Class I certified.

Mr.T.R Vijaykumar is the Managing Director and Mr.R.Dhanasekar is the Executive Director.

Key Financial Indicators

| Key Parameters | Units | 2017 | 2018 |
|-------------------------------|--------|---------|---------|
| Result Type | | Audited | Audited |
| Revenue from Operations | Rs. Cr | 137.53 | 155.45 |
| EBIDTA | Rs. Cr | 6.50 | 9.06 |
| PAT | Rs. Cr | 0.50 | 1.03 |
| Tangible Net worth | Rs. Cr | 17.96 | 19.32 |
| Total Debt/Tangible Net worth | Times | 3.40 | 3.46 |
| Current Ratio | Times | 1.06 | 1.13 |

On a provisional basis, the company reported total operating income of around Rs.164 Crs in FY19. During 5MFY20, the company reported total operating income of ~Rs.80 Crores

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years

| Facility | Current Rating (Sep 2019) | | | Rating History | | |
|------------------------|---------------------------|------------------|--|-----------------------|-----------------------|-----------------------|
| | Type | Amount (Rs. Crs) | Rating | Jun 11 2018 | Apr 19 2017 | Feb 24 2016 |
| Fund Based | | | | | | |
| Cash Credit | Long Term | 10.00 | BWR BBB-/Stable | BWR BB+/Stable | BWR BB+/Stable | BWR BB+/Stable |
| Term Loan | | 8.81 | | | | |
| Export Packing Credit# | Short Term | 28.00 | BWR A3 | BWR A4+ | BWR A4+ | BWR A4+ |
| Standby Line of Credit | | 2.00 | | | | |
| FBD | | 10.00 | | | | |
| Total | | 58.81 | Rupees Fifty Eight Crores And Eighty One Lakhs Only | | | |



Two Way Interchangeability between EPC and FBD

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

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CBC Fashions (Asia) Pvt Limited

**Annexure I
Details of Bank Facilities rated**

| Sl No. | Name of the bank | Facility | Long Term (Rs Crs) | Short Term (Rs Crs) | Total (Rs Crs) |
|--|------------------------------|---------------------------|-----------------------|------------------------|-------------------|
| 1 | State Bank of India, Tirupur | Cash Credit | 10.00 | - | 10.00 |
| | | Export Packing Credit# | - | 28.00 | 28.00 |
| | | FBD | - | 10.00 | 10.00 |
| | | Standby Line Of Credit | - | 2.00 | 2.00 |
| 2 | SIDBI, Tirupur | Working Capital Term Loan | 5.51 | - | 5.51 |
| | | Machinery Term Loan | 3.30 | - | 3.30 |
| Total : Rupees Fifty Eight Crores And Eighty One Lakhs Only | | | | | 58.81 |

Two Way Interchangeability between EPC and FBD

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