

Aquarelle International Limited - Brief Rating Rationale
CRAF reaffirms CARE MAU A (Stable) rating assigned to the existing and proposed
bond issue of Aquarelle International Limited

Ratings

| Instrument | Amount (USD Million) | Rating | Remarks |
|-----------------------|--|---|-------------------|
| Bond Issue\$ | USD 3.3 million (Mur 132 million) * | CARE MAU A; Stable [Single A; Outlook: Stable] | Reaffirmed |
| Proposed Bond issue\$ | USD 5.7 Million (Mur 228 million) * | CARE MAU A; Stable [Single A; Outlook: Stable] | Reaffirmed |

\$ Purpose of The Bond Issue –At the time of Initial Rating exercise the company proposed to raise a Bond of USD 6.0 - 9.0 million in tranches, to be repaid after 3 years from the date of issue (bullet repayment in December 2021). The purpose was to repay the high cost working capital facility in USD (around 4.75-5.0% p.a.) with cheaper cost Bond. AIL issued USD 3.3 million (MUR 132 million) of Bonds in FY19 with an interest rate of 3.95% and utilised the same for reduction of working capital.

*AIL proposes to raise balance USD 5.7 million bond (MUR 228 million) in July 2021 (FY22 at an indicative interest rate of 2.0-3.0%, with bullet repayment after 3 years). Majority of the company’s revenue and payments are in USD/USD linked and hence, it enjoys natural hedging. *(1 USD= MUR 40)*

Rating Rationale

The rating assigned to Aquarelle International Limited (“AIL”) derives strength from its experienced promoters & management team, established relationship with renowned international clothing brands in the garment export market leading to repeat orders, credit insurance for production loss, satisfactory financial position with moderate gearing and mitigated foreign exchange risks with majority of sales and procurement being USD denominated. The rating, however, is constrained by market and political risks associated with its Madagascar operations, the competitive nature of the industry, volatile profit margins and impact of COVID-19 pandemic on order book.

Ability of AIL to maintain & improve its operational performance, acquire high margin orders from existing customers and maintain adequate margins in an increasingly competitive industry are the key rating sensitivities.

BACKGROUND

Aquarelle International Limited (“AIL”), step down subsidiary of CIEL Ltd (“CIEL”; rated CARE MAU A+; Stable/CARE MAU A1), was incorporated as a Category 1 Global Business License (“GBL 1”) in May 1995. The company has license from Financial Services Commission (“FSC”) to hold investments and trade in textile garments (shirts and ladies wear) for export markets. Subsequently, on request, AIL was allowed by the FSC to deal with local residents. AIL is the wholly- owned subsidiary of CIEL Textile (which in turn is a wholly- owned subsidiary of CIEL Limited).

AIL through its subsidiary companies - Aquarelle India Private Limited (CARE BBB Stable) and Aquarelle Madagascar SARL, has manufacturing operations in India and Madagascar respectively to service its 3 business lines (casual wear, formal wear, and ladies wear). It has three factories in Madagascar and five factories in India.

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In May 2020, AIL acquired 99% of Laguna India LLP, funded from the cluster's own funds.

AIL derives majority of its revenue by sale of shirts manufactured by AML. The company operates on a back-to-back order basis. AIL sources the order from customers. It procures more than 90% of the fabrics (raw material) from Consolidated Fabrics Ltd., wholly owned subsidiary of CTL, and supplies to AML. AML in turn does the cutting, making, sewing, trimming, quality control and packing (Cut-Make-Trim) and supplies back around 100% of its production to AIL, against a service charge.

AIL's well-established export market and client base has helped the company get repeat orders. It focuses on export of high-end casual shirts for men and obtains about 100% of its revenue from the export market. 76% of the company's FY20 revenue is in USD.

Both AIPL and Laguna Clothing LLP were impacted by the pandemic with orders being rephased even though Laguna India is the most profitable business unit. Some of the orders were cancelled due to the fall in demand for casual and formal shirts resulting in a lower order book and some of the clients have gone in Business Rescue Procedure/Chapter 11. The drop in casual and formal shirts was due to work from home following lockdown in many countries however there was an increase in demand for t-shirts and polo shirts. Aquarelle Madagascar's performance was also impacted by the pandemic.

In FY20 (1 July – June 30), AIL posted a loss of MUR 24 million (PAT of MUR 108 million in FY19) on a total income of MUR 1,828 million (Mur 2,124 million in FY19). As on June 30, 2020, AIL had an overall gearing ratio of 1.43x. However, the performance of AIPL has turned around in Q1FY20 due to higher demand and shift of business from China to India.

AIL posted a turnover of MUR 474 million and PAT of MUR 33 million for Q1FY21 due to appreciation of USD/EUR, reduction in workforce and ability to ship orders post the lockdown. The management stated that they have visibility on the order book for the next 6 months and the performance of the subsidiaries are expected to improve in the coming months. The average utilization of working capital facilities over the last 12 months (Jan-Dec 2020) stood at an average of 51%

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