

**Brief Rating Rationale**

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

**Rating**

<b>Instrument</b>	<b>Amount (USD Million)</b>	<b>Rating</b>	<b>Remarks</b>
Bond Issue\$	USD 3.3 million (Mur 121 million) *	<b>CARE MAU A; Stable [Single A; Outlook: Stable]</b>	<b>Reaffirmed</b>
Proposed Bond issue\$	USD 5.7 Million (Mur 210 million) *	<b>CARE MAU A; Stable [Single A; Outlook: Stable]</b>	<b>Reaffirmed</b>

*\$ During Initial Rating exercise (November 2018, AIL proposed to raise a Bond of USD 9.0 million in tranches, to be repaid after 3 years from the date of issue (bullet repayment in January 2022). The purpose was to repay working capital facility in USD. AIL had issued USD 3.3 million (MUR 121 million) of Bonds in Jan 2019 at 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 210 million) in July 2020 (FY21 - with bullet repayment after 3 years). Majority of the company’s revenue and payments are in USD/USD linked.*

*\*(1 USD= MUR 36.8)*

**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, 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 and volatile profit margins.

Ability of AIL to maintain & improve operational performance in Madagascar, 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”), a step-down subsidiary of CIEL Limited (CIEL; rated CARE MAU AA; Stable/CARE MAU A1+), was incorporated as a Category 1 Global Business License on May 1995. The company was licensed 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 which enabled coordination of marketing activities through AIL’s head office based in Mauritius. AIL is the wholly-owned subsidiary of CIEL Textile (which in turn is 100% owned by CIEL Limited).

AIL, through its subsidiary companies & joint venture [Aquarelle India Private Limited (CARE BBB Stable), Aquarelle Madagascar SARL and Laguna Clothing (India) LLP], has manufacturing operations in India and Madagascar to service its 3 business lines (casual wear, formal wear and ladies wear). It has three factories in Madagascar and six factories in India. Through its subsidiaries, AIL employs in total 8,500 employees in Madagascar and India.

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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 80% of its production to AIL, against a service charge. The balance 20% of the production is supplied to Laguna Clothing Mauritius, for which the material is supplied by Laguna Clothing. Turnover from AML was higher in FY19 vis-à-vis FY18 due to appreciation of dollar (USD 34.7 in June 2018-19 vis-à-vis USD 33.9 in June 2017-18).

AIL operates on a back to back order basis. The company'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 ladies wear. 73% of the company's FY19 revenue is in USD compared to 56% for FY18 due to increase in sale on export markets (which is mainly in USD) and appreciation of the USD. This apart, the management informed that the revenue in ZAR is also linked to USD. While the orders are procured in USD, the Invoicing is done in ZAR. The company also take forward covers to cover its ZAR receivables. On the other hand, the company procures around 90% of its materials in USD, which in turn acts as a natural hedging against any currency fluctuations.

In FY19 (1 July – June 30), AIL posted a PAT of MUR 108 million (Mur 97 million in FY18) on a total income of MUR 2,200 million (Mur 1,710 million in FY18). As on June 30, 2019, the company had an overall gearing ratio of 0.81x and interest coverage of 7.32x.

The average utilization of working capital facilities over the last 12 months (Jan-Dec 2019) stood at an average of 74%

AIL posted a PAT of MUR 55.3 million on a turnover of MUR 1.2 billion for H1FY20 due to better order book & margin, smooth performance of Madagascar unit and added capacity in AIPL.

#### **Disclaimer**

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**Annexure I**

**Rating Symbols**

***Long /Medium-term Instruments***

<b><i>Symbols</i></b>	<b><i>Rating Definition</i></b>
<b>CARE MAU AAA</b>	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
<b>CARE MAU AA</b>	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
<b>CARE MAU A</b>	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
<b>CARE MAU BBB</b>	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
<b>CARE MAU BB</b>	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU B</b>	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU C</b>	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU D</b>	Instruments with this rating are in default or are expected to be in default soon.

***Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category.***

**Rating Outlook**

The rating outlook can be ‘Positive’, ‘Stable’ or ‘Negative’.

A ‘Positive’ outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.

A ‘Negative’ outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

A ‘Stable’ outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity.