Rating Rationale
Aquarelle International Limited (AIL)

Rating

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.

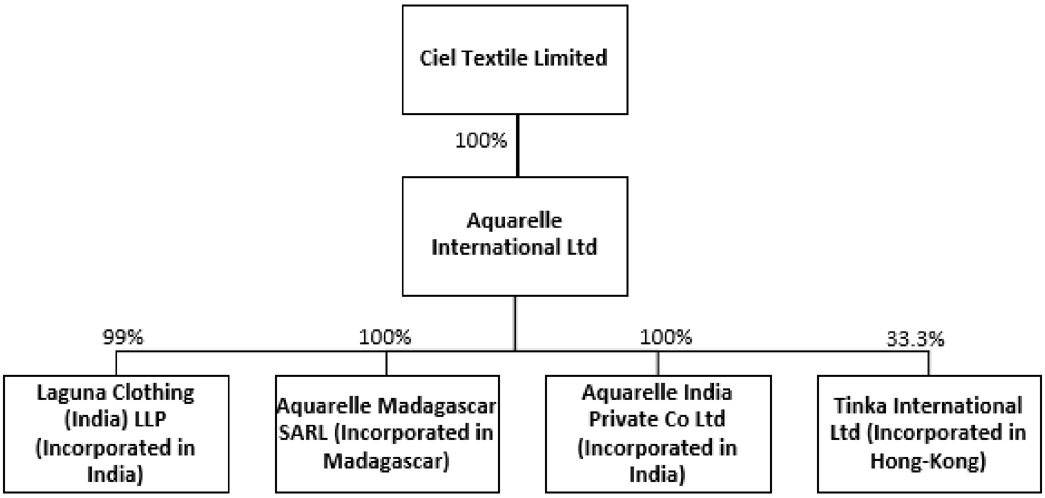
Ability of AIL to maintain & improve its operational performance, acquire high margin orders from existing customers and maintain adequate margins in an increasingly competitive industry are the key rating sensitivities.

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. This 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 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. AIL, through its subsidiaries, employs around 7,000 employees in Madagascar and India. The table summarizes the group structure for Aquarelle International Limited.



Aquarelle Madagascar SARL ("AML"): Based in Madagascar, AML is 100% subsidiary of AIL. The company is engaged in production of 4.8 million pieces of garments (casual wear and formal wear) per annum. AIL sources the order from customers and procures the entire raw material and supplies to AML. AML in turn does the cutting, making, sewing, trimming, quality control and packing 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).

Aquarelle India Pvt Ltd ("AIPL": CARE BBB Stable): Based in India, AIPL is also a 100% subsidiary of AIL. AIPL is engaged in manufacturing of high-end casual shirts for men and derives about 50% of its revenue from export market. The company produces 4.1 million pieces of garment annually.

Laguna Clothing (India) LLP ("LCL"): LCL is a 99% subsidiary of Aquarelle International Limited producing 4.3 million pieces of garments annually. All shirts produced by Laguna India are sold directly to clients. AIL acts as a marketing agent for LCL and earns a marketing commission on sales. LCL also pays dividend to AIL.

Tinka International Limited is the procurement office for Aquarelle group based in Hong Kong.

Impact of the COVID-19 pandemic on CIEL Textile (holding company of AIL):

In FY20, CIEL Textile has posted a normalised loss of MUR 29 million on a total revenue of MUR 10,600 million (PAT of MUR 453 million on a total revenue of MUR 12,151 million in FY19). Lower revenue and profitability were due to closure of the factories during the lockdown, significant drop in demand for formal and casual shirts in the international market and insolvencies of the big brands in the retail industry (Liquidation/Chapter 11 filed by the retail players in USA and Europe) in Q4FY20. **In Q1FY21**, CTL posted an EBITDA of Mur 267 Million against the total revenue of Mur 2,901 Million and PAT of Mur 138 Million (MUR 201 million in Q1FY20). CTL's order book has increased (around

5-6 months) significantly in Q1FY21 compare to Q4FY20, with higher margin. The company has achieved its manufacturing efficiencies providing strong sales dynamics and meeting good customer satisfaction. The factory in India has gained momentum in Q1FY21.

In May 2020, AIL acquired 99% stake of Laguna India LLP, the transaction was financed through the cluster's own funds.

CREDIT RISK ASSESSMENT

Experienced promoters

CIEL group, through its investment in CIEL Textile, has significant experience in the textile sector. CIEL Textile Limited (CTL) is a world-renowned corporate player in the textile and garments industry. It has 19 production units spanned across Mauritius, Madagascar, India and Bangladesh. With production capacities of around 34 million garments, CIEL Textile's main export markets are in Europe, India, South Africa, and USA. CTL offers a variety of products under 3 clusters – Woven (Aquarelle), Fine knits (Tropic Knits & CDL) and Knitwear (Floreal). Woven produces formal, casual and ladies Shirts. Fine Knits produces jersey wear garments, T-shirt, Polo Shirts, and cotton sweaters. Knitwear produces sweaters and wool spinning.

AIL is the wholly owned subsidiary of CTL. It is an investment and trading company. Through its subsidiaries AML, AIPL and Laguna India, it produces formal wear, casual wear, and ladies' wear. CTL's strategic focus is aimed at cost reduction in local operation while expanding turnover and profitability in Asian operation through organic and inorganic growth. CTL's turnover has increased over the last few years, driven by better performance of the woven cluster. **Snapshot of CTL's consolidated financials is as under:**

CIEL Textile Ltd. (MUR Million)	FY18	FY19	FY20	Q1FY20	Q1FY21
Revenue	10,944	12,151	10,600	3,497	2,901
EBIDTA	759	1,025	517	361	267
Interest	136	182	203		
PBT	360	548	(35)*		
PAT	317	453	(29)*	201	138
GCA	591	788	338*		
Dividend Paid	286	127	331		
Total Debt:	3,901	4,238	4,508		
Long Term	109	256	251		
Short Term	3,792	3,982	4,257		
Cash & cash equivalents	429	377	649		
Tangible Net worth	3,973	4,279	2,880		
EBIDTA margin	6.94%	8.44%	4.88%		
PAT margin	2.90%	3.73%	N.M.		
Gearing	0.98	0.99	1.57		
Total Debt/GCA	6.60	5.38	13.36		
Total Debt/EBIDTA	5.14	4.13	8.72		
Interest coverage (EBIDTA/Interest)	5.58	5.63	2.55		

*** Normalized for FY20 vis-à-vis Reported. Reported PAT was Mur (655) million and PBT was Mur (662) million*

In FY20, CTL posted lower revenue and profitability due to closure of the factories in all the segments due to lockdown, significant drop in demand for formal shirts in the international market and insolvencies of the big brands in the retail industry (Liquidation/Chapter 11 filed by the retail players in USA and Europe) in Q4FY20. Closure of factories in Q4FY20 and lower orders wiped out the entire profit posted by the company in 9MFY20. The loss in Q4FY20 was somewhat minimized by the better performance of the Madagascar unit.

Post de-confinement in Q1FY21, CTL posted an EBITDA of Mur 267 Million against the total revenue of Mur 2,901 Million. CTL booked a PAT of Mur 138 Million for Q1FY21, recording a decline of 31% compare to Q1FY20. The challenges of Q4FY20 continues to prevail in Q1FY20 with the more insolvencies of the big brands in the retail industry. However, CTL's order book has increased many times in Q1FY21 compare to the last quarter of FY20, with an excellent margin being recorded. The company has achieved its manufacturing efficiencies providing strong sales dynamics and meeting good customer satisfaction.

Professional and experienced management team

AIL and its subsidiaries operations are looked after by Mr. Eric Dorchies (Chief Operating Officer in Ciel Textile Limited). Mr. Eric holds a diploma from the "Ecole Supérieure de Commerce" in Paris. He joined the CIEL Group in 1998 as General Manager of Consolidated Fabrics Ltd (subsidiary company of CTL) and was appointed Managing Director of Aquarelle Clothing Ltd. (subsidiary company of CTL) in 2003. He occupies the position of Chief Executive Officer of the AIL from 2008. Since 2017, Eric is also the Chief Operating Officer of CTL. Mr. Maneesh Patel is the CEO of Aquarelle Regional. AIL has a 4-member Board of Directors comprising of Mr. Eric Dorchies, Mr. Bertrand Rivalland, Mr. Maneesh Patel and Mr. Navin Causy (CFO).

Optimum Capacity utilization

AIL has three factories in Madagascar and five factories in India and employs in total 7,013 employees in Madagascar and India. In FY20, C.U. of most of the production units was down to 75% due to lockdown in Mauritius from March – May 2020 and lower order book position due to impact of COVID -19 in European and USA market.

In Q1FY21, while fine knits and knitwear operated at more than 90% capacity due to higher demand for polo shirts and sweaters, woven cluster operated at 70% capacity due to lower demand for formal shirts in the international market and insolvencies in the retail market. Even though all the factories are operating, they have started to reduce their workforce, operations are being right sized to match order book level. During last 4 years, AIL has invested approximately Mur 150 million in India to expand its production capacities in India.

Steady Revenue base

For the period ended (MUR Million)	FY18	FY19	FY20
AML - 80% of production	1,261.2	1,436.6	1,362.8
AIPL - 50% of the production	398.6	687.6	465.3
Revenue from operations	**1,659.8**	**2,124.2**	**1,828.1**
Dividend from subsidiaries (Laguna)	32.0	0.0	28.7
Other Income (Insurance Income)	0.0	0.0	0.0
Total revenue	**1,691.8**	**2,124.2**	**1,856.7**

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. Despite the appreciation of dollar (USD 39.7 in June 2019-20 vis a vis USD 34.7 in June 2018-19), turnover from AML was lower for FY20 due to decrease in production resulting from the global pandemic and subsequent lockdown.

In case of AIPL, the company sources the order and passes it to AIPL, who in turn sources the fabrics from India, produces the shirt and exports to AIL. AIL gets on an average 3-8% commission on cost of each shirt. Turnover from AIPL was also lower in FY20 as compared to FY19 due to lower production due to lockdown.

Established relationship with renowned brands in the garment export market:

Aquarelle International Ltd 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 obtains about 100% of its revenue from the export market.

AIL produces Grade A/B brands and retailers, positioning itself as one of the best alternatives to China. Given the CIEL Group supplies to an array of customers worldwide and has access to business relationships with customers worldwide. Few of AIL's reputed international customers are: Tommy Hilfiger, Lacoste, Amazon Essentials, Ben Sherman, J Crew, Cape Union, Dillard's, Dressman, Esprit, Levis, Express, Armani, Woolworths, Truworth, Rodd n Gunn, Lee Wrangler and Marks & Spencer. The company offers on average 60-90 days credit period to all its customers.

Backward Integration - Fabrics sourced primarily from group companies

AIL procures majority of its fabrics from Consolidated Fabrics Ltd., wholly owned subsidiary of CTL, for its AML factory. For AIPL it sources its fabrics and materials from India & China.

Supplier Company	Raw material Supplied	Country
Jiangsu Lianfa Textile Co.	Fabrics	China
Blue Fabric	Fabrics	China
Arvind Ltd	Fabrics	India
Nahar Textiles	Fabrics	India

Since the global pandemic, logistics represents a challenge for the company. They have also started to source fabrics and materials from Tunisia and Brazil besides India and China.

Competitive nature of the textile industry:

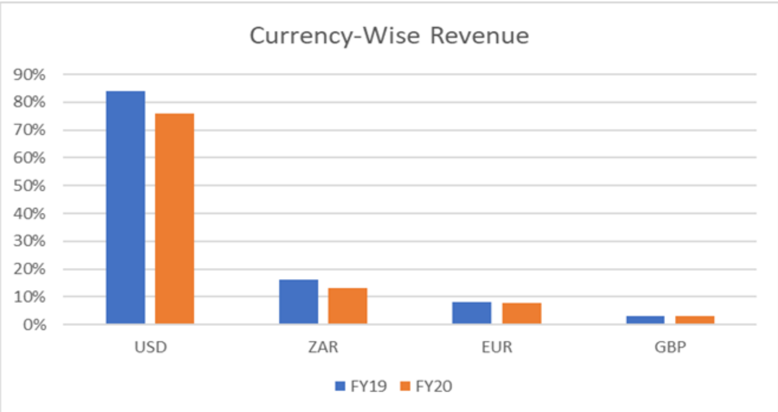
Apparel manufacturing is characterized by low entry barriers and hence is highly fragmented industry with presence of large number of organized and unorganized manufacturers resulting in limited pricing power leading to thin operating margins along with heavy competition from countries like India, China, Bangladesh, Sri Lanka, etc

Insurance for loss on production

AIL, being part of CIEL Textile's woven cluster, is covered by Combined Fire & Allied Perils & Loss of profits Insurance from Mauritius Union Assurance for an aggregate amount of MUR 4.3 billion. It also covers any loss of profits (up to Mur 2.06 billion) arising from business interruption resulting from any of the perils.

Forex risk mitigated since majority of the sales and procurement is USD denominated

AIL's currency wise turnover for FY19 and FY20 is as under:



76% of the company's FY20 revenue is in USD compared to 84% for FY19 due to the decrease in demand and sale on export markets (which is mainly in USD) despite the appreciation of USD. Proportion of revenue in ZAR has decreased significantly from 16% in FY19 and 13% in FY20 mainly due to deterioration in the South African economy which is impacting consumption patterns negatively. This apart, 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. The company also mentioned that it is in discussion with its European clients (who pays in Euro and GBP) to link the same with USD. On the other hand, the company procures around 90-95% of its materials in USD, which in turn acts as a natural hedging against any currency fluctuations.

For the period ended (MUR Million)	**FY18**	**FY19**	**FY20**
Revenue	1,659.9	2,124.2	1,828.1
76% of Revenue is linked to USD for FY20	1,410.9	1,784.3	1,397.1
Commission received in USD (MUR million equivalent)	50.2	76.3	51.4
Total Income in USD (MUR million equivalent)	**1,461.2**	**1,860.6**	**1,448.5**
90-95% of the cost of goods purchased in USD (MUR million equivalent)	**1,216.7**	**1,563.8**	**1,307.2**
USD excess utilised for meeting working capital (MUR million equivalent)	**244.4**	**296.9**	**141.5**
Excess in USD million which can be used for repayment of USD Bond/working capital	**7.0**	**8.0**	**3.5**

Staff cost, logistics and other expenses are primarily in MUR. Majority of the company's working capital (bill discounting, import & export loan) are USD denominated. Accordingly, the company has issued a USD Bond, which will be repaid out of the USD surplus from operations and unutilized USD denominated working capital facilities, thereby mitigating currency fluctuation risk.

Moderated financial risk with volatile profitability margins and cash accruals:

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. In FY20, AIL recorded a net loss of MUR 14 million as compared to a PAT of MUR 101 million in FY19. Aquarelle Madagascar's performance was also impacted by the pandemic. However, the performance of AIPL has turned around in Q1FY20 due to higher demand and shift of business from China to India.

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. Also, with the appreciation of USD, EUR, and Rand (South African currency) vis-a-vis MUR in FY20-21 for major part of the year, will enable textile companies to post better performance in FY21. No additional loan was provided to AIPL in FY20. As on June 30, 2020, AIL had an overall gearing ratio of 1.43x.

Tax Status: AIL, being a Category 1 Global Business Company, is a tax resident of Mauritius and is therefore liable to tax in Mauritius at a concessionary rate as it is eligible to benefit from the Double Tax Treaties that Mauritius has with various countries (including Madagascar and India). AIL is subject to a flat rate of corporate tax of 15% minus up to 80% of the tax liability as foreign tax credits, hence, ***paying a net effective tax of 3% only.***

Efficient working capital management

AIL has a policy to stock inventory of around 40-60 days, based on the client requirement. The company offers 60-90 days credit period to all its customers. It procures majority of the raw material (fabrics) from its group companies and gets a credit period of 15 days. During last few years, the company extended loans to its subsidiaries for expansion and paid dividends to its holding company. Accordingly, it started utilizing its working capital facilities, which in turn impacted its current ratio and the same was around 1.00 for last 2 years. Accordingly, the company issued a Bond of longer tenure (3 years) and utilized the funds to reduce its working capital facilities.

Receivables: As on June 30, 2020, AIL's outstanding debtors amounted to MUR 187 million (after provisioning for impairment of MUR 56 million) which has been fully recovered.

The average utilization of working capital facilities as of November 30, 2020 stood at an average of 51%. This is primarily due to utilization of overdraft facilities/bill discounting for working capital limits. Working capital utilisation started to improve by end of August 2020, with J Crew paying a significant amount of outstanding in September 2020. AIL has recovered around entire debtors outstanding as on June 30, 2020 and more that 90% of its billing between July-Nov.

Volatile nature of the industry

The textile industry, being an important pillar of the Mauritian economy that directly employs over 35,000 workers and generates around MUR 3.3 billion of exports per annum, makes up around 29% of the manufacturing sector. Mauritius is one of the largest fully fashioned knitwear producers, the 3rd largest exporter of pure new wool products, and Europe's 4th largest supplier of T-shirts.

While the main exports were destined to the European continent and USA traditionally, since the last few years exports to the South African market have been constantly increasing. The Mauritian textile industry is now a vertically integrated supplier of designer garments supplying to internationally renowned brands such as Topshop, Topman, River Island, Levi's, Le Chateau, Foschini's, Burton UK, Devred, Guess, Hackett, Massimo Dutti, Naf Naf, Orvis, Peeble Beach, Puma, Calvin Klein, Woolworths, Ecko, Abercrombie & Fitch, Tommy Hilfiger, Victoria's Secret, etc. The industry, however, is characterized by low barriers to entry and hence low margins, in addition to heavy competition from countries like China, Bangladesh, India and Sri Lanka. However, appreciation of USD, EUR, and Rand (South African currency) vis-a-vis Mur in FY20-21 for major part of the year, will enable textile companies to post better performance in FY21.

Prospects

The prospects of the company depend on the operational performance of Madagascar and India unit, ability to generate orders from existing & new customers and ship those orders in a time bound manner, steady recovery from debtors without any major provisioning and stabilization in USD.

Standalone Financial performance of AIL **Mur Million**

For the year ended as on 30 June	Jun-19	Jun-20
	12M	12M
	Audited	Audited
Revenue	2,048	1,778
Total Income	2,124	1,828
EBITDA	125	(12)
Depreciation	-	-
Interest	13	15
Non-operating income & expenses	-	3
PBT	112	(23)
PAT	108	(23)
Gross Cash Accruals (GCA)	108	(23)
Dividend paid/proposed	-	105
Financial Position		
Equity share capital	7	7
Tangible net worth	505	378
Total debt	409	542
Cash & Bank balances	3	14
Key Ratios		
Profitability (%)		
EBITDA / Total op. income	6.10	N.M.
PAT / Total income	5.10	N.M.
ROCE- operating (%)	5.51	N.M.
RONW (%)	24.08	N.M.
Solvency		
Debt equity ratio	0.23	0.35
Overall gearing ratio	0.81	1.43
Interest coverage (times)	9.40	N.M.
Total debt/ EBITDA	3.27	N.M.
Liquidity		
Current ratio	1.35	1.12
Quick ratio	0.92	0.80
Avg. Collection Period (days)	62	55
Avg. Inventory (days)	44	44
Avg. Creditors (days)	3	5
Op. cycle (days)	103	94

Adjustments

1. Tangible networth is calculated by netting off revaluation reserve and intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long-term and short-term debt)/Tangible Networth.
4. Total Income includes revenue, other operating Income, and interest on deposits.
5. EBIDTA = All Income less expenses related to operations

Annexure – I

1. Details of Bond Issue

Type of instrument	Amount (USD Million)	Debt repayment terms
Long Term Bond	3.3 (Mur 132 million) *	Tenor – 3 years Bullet repayment 3 years from date of issue (January 2019)
Grand Total	3.3	

(1 USD= MUR 40)

The repayment terms are as follows:

	FY19	FY20	FY21	FY22
Principal	0.0	0.0	0.0	132.0

1. Details of Proposed Bond Issue

Type of instrument	Amount (USD Million)	Debt repayment terms
Proposed Bond	5.7 (Mur 228 million) *	Tenor – 3 years Bullet repayment 3 years from date of issue
Grand Total	5.7	

(1 USD= MUR 40)

The repayment terms are as follows:

	FY19	FY20	FY21	FY22
Principal	0.0	0.0	0.0	228.0

Annexure I

Rating Symbols

Long /Medium-term Instruments

Symbols	*Rating Definition*
CARE MAU AAA	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.
CARE MAU AA	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.
CARE MAU A	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.
CARE MAU BBB	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.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	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.