Brief Rating Rationale

CRAF assigns CARE MAU A (Stable) rating to the proposed bond issue and of Aquarelle International Limited

Ratings

Instrument	Amount (USD Million)	Rating	Remarks
Bond	9.0	**CARE MAU A; Stable [Single A; Outlook: Stable]**	**Assigned**

Rating Rationale

The rating assigned to Aquarelle International Limited ("AIL") derives strength from 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, 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

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. AIL is the wholly- owned subsidiary of CIEL Textile Ltd (which in turn is 88.5% subsidiary company of CIEL Limited).

AIL, through its subsidiary companies & joint venture [Aquarelle India Private Limited (APL: CARE BBB Stable), Aquarelle Madagascar SARL (AML) 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.

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 on average 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. Turnover from AML was lower in FY18 vis-à-vis FY17 due to depreciation of dollar (USD 35.75 in June 2016-17 vis-à-vis USD 33.90 in June 2017-18).

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 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. 56% of the company's revenue is in USD. This apart, discussion 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.

In FY18 (1 July – June 30), AIL posted a PAT of MUR 97 million (Mur 299 million in FY17) on a total income of MUR 1,710 million (Mur 1,875 million in FY17). Overall gearing was 1.07 as on June 30, 2018. During Q1FY19 (1 July – Sept 30), AIL has reported a PAT of MUR 46 million (MUR 6 million in Q1FY18) on a turnover of MUR 579 million (MUR 383 million in Q1FY18).

Average bank limit utilization during last 12 months was 74% primarily due to utilization of overdraft facilities/bill discounting for working capital limits, whereas profits generated in FY17 & FY18 was used for long term purposes (extension of shareholders loan to AIPL for expansion and payment of dividend). The company is planning to issue 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.

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 in the medium term.