

March 03, 2014

Facilities	Amount (Rs. Crore)	Rating
Term Loan	3.00	SMERA B/ Stable (Assigned)
Cash Credit	4.50	SMERA B/ Stable (Assigned)

SMERA has assigned a rating of '**SMERA B' (read as SMERA single B)** to the above-mentioned bank facilities of Peppermint Clothing Private Limited (PCPL). The outlook is '**Stable**'. The rating is constrained by the company's short track record and small scale of operations in a highly fragmented kids wear industry. The rating is also constrained by the company's stretched liquidity position, negative operating cash flows and high leverage. The rating factors in the susceptibility of the company's business operations to changes in fashion trends and customer preferences. However, the rating derives comfort from the company's experienced management and registered brand name.

PCPL, incorporated in 2007, is a Pune-based company engaged in manufacturing of readymade garments for girls in the age group of 0-14 years. PCPL commenced commercial operations in February 2011. The company has a small operating scale with revenue of Rs.27.52 crore in FY2012-13 (refers to financial year, April 01 to March 31). PCPL faces intense competition from several players in the Indian kids wear industry, which is dominated by the unorganized segment. Moreover, the competition has intensified with the entry of several large domestic and international players.

PCPL caters to large format stores, which are large retail stores in malls and multi brand outlets, which are local retail stores. The company derives ~70 per cent of its revenues from large format stores. PCPL collects dues from multi brand outlets within 90 days. However, payments from large format stores are received only after customers purchase the garments from such stores. PCPL's working capital cycle is thus stretched at ~110 days in FY2012-13. Moreover, the company has a stretched liquidity position, as reflected in high average utilization (93 per cent) of working capital limit during April 2013 to January 2014. PCPL registered negative operating cash flows in FY2011-12 and FY2012-13 on account of high working capital requirements. The company's leverage is high at 8.06 times as on March 31, 2013. PCPL's total debt (of Rs.17.32 crore as on March 31, 2013) includes interest-bearing unsecured loans (subordinated to bank loan) of Rs.6.77 crore from directors and relatives. The company's business operations are susceptible to changes in fashion trends and customer preferences.

PCPL benefits from experienced management. Mr. Santosh Kataria, director of PCPL, has around two decades of experience in the kids wear industry. The company sells its products under its registered brand name, 'Peppermint'. PCPL has a moderate order book position with pending orders worth Rs.5.22 crore as on February 04, 2014.

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**Outlook: Stable**

SMERA believes the outlook on PCPL's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' in case the company expands its scale of operations while achieving a comfortable liquidity position and satisfactory capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile.

**About the company**

PCPL, incorporated in 2007, is a Pune-based company promoted by Mr. Santosh Kataria. PCPL is engaged in manufacturing of readymade kids wear (under the brand name 'Peppermint') for girls in the age group 0–14 years. PCPL has two manufacturing units, located in Pune and Baramati, Maharashtra.

For FY2012–13, PCPL reported net profit of Rs.0.50 crore on total income of Rs.27.52 crore, as compared with net profit of Rs.0.55 crore on total income of Rs.22.49 crore for FY2011–12. The company registered revenues of Rs.24.39 crore during April 2013 to December 2013. PCPL's net worth stood at Rs.2.15 crore as on March 31, 2013, as compared with Rs.1.65 crore a year earlier.

**Contact List:**

Media / Business Development	Analytical Contacts	Rating Desk
Virendra Goyal Vice President - SME Sales Tel : +91 22 6714 1177 Cell : +91 99300 74009  Email : <a href="mailto:virendra.goyal@smera.in">virendra.goyal@smera.in</a> Web: <a href="http://www.smera.in">www.smera.in</a>	Umesh Nihalani Head – Corporate Ratings, Tel: +91-22-6714 1106  Email: <a href="mailto:umesh.nihalani@smera.in">umesh.nihalani@smera.in</a>	Tel: +91-22-6714 1170  Email: <a href="mailto:ratingdesk@smera.in">ratingdesk@smera.in</a>

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