



SMERA RATINGS LIMITED

Iris Clothings Private Limited (ICPL)**Rating
Rationale****December 02, 2014**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	5.00	SMERA B+/Stable(Assigned)
Proposed Cash Credit	2.50	SMERA B+/Stable(Assigned)

SMERA has assigned a long-term rating of '**SMERA B+**' (read as **SMERA single B plus**) to the Rs.7.50 crore bank facilities of Iris Clothings Private Limited (ICPL). The outlook is '**Stable**'. The rating is constrained by the company's modest scale of operations in a highly competitive and fragmented segment of the textile industry. The rating is also constrained by the company's weak financial risk profile and working capital-intensive operations. The rating factors in risks related to the debt-funded capex undertaken by the company. However, the rating is supported by the company's experienced management.

ICPL, incorporated in 2011, is a Howrah-based company engaged in manufacturing of garments and trading of fabrics. ICPL's modest operating scale is reflected in revenues of Rs.24.79 crore in FY2013-14 (refers to financial year, April 01 to March 31). The company faces intense competition from several players in the textile industry. ICPL's weak financial risk profile is marked by high gearing (debt-to-net worth ratio) of 4.50 times and low net worth of Rs.3.92 crore as on March 31, 2014. The company usually maintains high level of inventory (of ~146 days) which has resulted in stretched working capital cycle of ~147 days in FY2013-14. ICPL's average utilisation of working capital limit is high at 98 per cent during March 2014 to August 2014.

ICPL has undertaken a debt-funded capex of Rs.5.60 crore for setting up a factory unit in Panchla, Howrah. The aforementioned capex will be funded through debt of Rs.3.64 crore and promoters' funds of Rs.1.96 crore. The financial closure of the project is awaited. The company plans to commission the project by March 2015. SMERA believes ICPL's financial risk profile may remain weak on account of high debt levels and increase in interest servicing obligation.

ICPL benefits from its experienced management. Mr. Santosh Ladha, CEO of ICPL, has around two decades of experience in the company's line of business.

Outlook: Stable

SMERA believes ICPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers substantial improvement in financial risk profile and working capital management. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues and profitability, or in case of deterioration in the company's financial risk profile.

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Iris Clothings Private Limited (ICPL)

Rating Rationale

About the company

ICPL was incorporated in 2011 to take over the running business of Iris Clothings (a proprietorship concern established in 2005). ICPL is engaged in manufacturing of readymade garments and trading of fabrics. The company sells its products under the brand names of Do Re Me, Baby, Oxcgen, Yo Kids, Pretty Honey and Vita Ace. ICPL mainly deals in cotton hosiery and knitted fabrics. The company has installed capacity of ~20,000 garments per day.

For FY2013-14, ICPL reported profit after tax (PAT) of Rs.0.68 crore on operating income of Rs.24.79 crore, as compared with PAT of Rs.0.57 crore on operating income of Rs.18.20 crore in FY2012-13. The company's networth stood at Rs.3.92 crore as on March 31, 2014, as compared with Rs.3.24 crore a year earlier.

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