



SMERA RATINGS LIMITED

Iris Clothings Private Limited (ICPL)

*Rating
Rationale*

January 11, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	7.50	SMERA B+/Stable (Reaffirmed)

SMERA has reaffirmed the long-term rating of **'SMERA B+' (read as SMERA single B plus)** on the Rs.7.50 crore bank facilities of Iris Clothings Private Limited (ICPL). The outlook is **'Stable'**. The rating remains 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 working capital-intensive operations and weak financial risk profile marked by high gearing and low interest coverage. However, the rating is supported by the company's experienced management.

Update

ICPL reported revenues of Rs.29.96 crore in FY2014-15 (refers to financial year, April 01 to March 31), which is an increase from FY2013-14 revenues of Rs.24.79 crore mainly on account of increase in production capacity which has in turn lead to execution of more orders.

The company's net margins have declined to 0.83 percent in FY2014-15, as compared with 2.75 percent in the previous year due to increased fixed cost and interest burden. The gearing level has been high at 4.37 times as on March, 2015. The interest coverage stood low at 1.64 times in FY2014-15 as compared to 2.13 times in FY2013-14. The company has debt funded capex of Rs.1.20 crore for purchase of machinery. The same will be funded through a term loan of Rs.0.90 crore and own contribution of Rs.0.30 crore. The working capital cycle stood high as on March 31, 2015 at 120 days mainly on account of high inventory levels maintained of ~179 days

Rating Sensitivity Factors

- Ability to scale up revenue while increasing profitability
- Maintaining capital structure while venturing into debt funded capex plan

Outlook: Stable

SMERA believes ICPL 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 owing to higher-than-expected working capital requirements/debt funded capex.

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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 ~43.80 lakh garments per annum.

The company has 4 factory (rented) units situated in Howrah (Sankrail, Foreshore Road). Further the company is setting up a factory unit in Panchla, Howrah, which is expected to be completed by April, 2016.

Contact List:

Media/Business Development	Analytical Contact	Rating Desk
Mr. Antony Jose Vice President – Business Development Tel: +91-22-6714 1191 Email: antony.jose@smera.in Web: www.smera.in	Ms. Pooja Ghosh Associate Vice President – Corporate Ratings Tel: +91-33-6620 1203 Email: pooja.ghosh@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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