

Press Release

Indian Clothing League Private Limited

April 21, 2017

Rating Downgraded

Total Bank Facilities Rated*	Rs. 24.50 Cr
Long Term Rating	SMERA BB+/Stable (Downgraded from SMERA BBB-/Stable)

*Refer Annexure for details

Rating Rationale

SMERA has downgraded the long term rating assigned to the Rs. 24.50 crore long term bank facilities of Indian Clothing League Private Limited (ICL) from SMERA BBB- (read as SMERA triple B minus) to SMERA BB+ (read as SMERA double B plus). The outlook is 'Stable'

ICL is engaged in the manufacturing and retailing of readymade garments for kids under the brand name '612 Ivy League' and 'Baby League' for children.

The rating downgrade factors in the continued decline in profitability margins coupled with increase in gross current assets days of the company. SMERA believes that the highly competitive nature of the clothing and apparel industry will continue to weigh down on the profitability margins and working capital cycle of ICL. The persistent decline in profit margins also resulted in lower than expected debt protection.

List of Key Rating Drivers and their detailed description

Strengths:

Infusion of Private Equity Capital: ICL is expected to continue to benefit from its ability to mobilise funds from private equity players. The company raised Rs. 25 cr from ASK Pravi Private Equity in FY2016 in the form of cumulative optionally convertible preference shares. The networth of the company increased to Rs. 56.79 cr on 31 March, 2016 as compared to Rs. 31.51 cr on 31 March, 2015.

Sustained growth in operating income: The rating also draws comfort from ICL's ability to maintain sustained growth in its operating income by leveraging its well diversified distribution network across the country. As on 31 August, 2015, ICL reported 554 Points of Sale across the country while its operating income increased to Rs. 83.82 cr in FY2016 from Rs. 69.89 cr in FY2015.

Weaknesses:

Continued deterioration in profitability: The rating downgrade is driven by the decrease in profitability margins on account of higher discount given by the company in FY2016 as compared to FY2015. Consequently, the gross profit margin declined to 4.62 per cent in FY2016 from 5.72 per cent in FY2015.

SMERA believes that the highly competitive nature of the clothing and apparel industry will continue to weigh down on the profitability margins and working capital cycle of ICL. The persistent decline in profit margins also resulted in lower than expected debt protection. The interest coverage ratio declined to 1.47 times in FY2016 as compared to 1.91 times in FY2015.

Increase in gross current asset days: SMERA also takes note of the headwinds faced by the company in managing its working capital requirements on account of the muted offtake in the clothing and

apparel industry. The inventory days of the company increased to 198 days in FY2016 from 162 days in FY2015 resulting in an increase in Gross Current Asset (GCA) days to 346 days in FY2016 as compared to 299 days in FY2015. SMERA believes that improvement in its overall working capital cycle will remain a key credit monitorable.

Analytical approach: SMERA has taken a standalone view of the above entity

Applicable Criteria

- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes ICL will maintain a 'Stable' outlook on account of its experienced management and sound capital structure. The outlook may be revised to 'Positive', in case of improvement in profitability indicators, without stretching its working capital cycle. Conversely, the outlook may be revised to 'Negative', in case of further deterioration in profitability indicators and/or substantial increase in gearing.

About the Rated Entity

ICL is engaged in the manufacturing and retailing of readymade garments for kids under the brand name '612 Ivy League' and 'Baby League' for children. The company has two manufacturing facilities at Ludhiana, Punjab, with installed capacity of 1,75,000 pieces per month (PPM).

The company reported net profit of Rs.0.22 cr on operating income of Rs.83.82 cr in FY2015-16, as compared with profit after tax (PAT) of Rs.0.91 cr on operating income of Rs.69.89 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	24.50	SMERA BB+/Stable (Downgraded from SMERA BBB-/Stable)	6 Oct, 2015	SMERA BBB-/Stable (Upgraded from SMERA BB+/Positive)	4 Nov, 2014	SMERA BB+/Positive (Reaffirmed)	6 Jan, 2014	SMERA BB+/Stable (Assigned)
Term Loan	LT	-	-	-	-	4 Nov, 2014	SMERA BB+/Positive (Reaffirmed)	6 Jan, 2014	SMERA BB+/Stable (Assigned)
Inland Letter of Credit	ST	-	-	-	-	4 Nov, 2014	SMERA A4+ (Reaffirmed)	6 Jan, 2014	SMERA A4+ (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	N.A	N.A	N.A	Rs. 24.50 cr	SMERA BB+/Stable (Downgraded from SMERA BBB-/Stable)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>
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ABOUT SMERA

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