

Press Release

Indian Clothing League Private Limited

18 August, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.35.00 Cr (enhanced from Rs.24.50 crore)
Long Term Rating	SMERA BB+/Stable (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB+**' (**read as SMERA double B plus**) on the above mentioned bank facilities of Indian Clothing League Private Limited (ICL). The outlook is '**Stable**'.

ICL is a Punjab-based company engaged in the manufacturing and retailing of readymade garments for kids under the brand names '612 League' and 'Baby League'. The company was promoted in 1987 by Mr. V. K. Indrayan and Mr. Manu Indrayan.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced management: ICL continues to benefit from its experienced management. Mr. Manu Indrayan, Director, has a postgraduate degree in management from the Indian Institute of Management, Bangalore with around two decades of experience in the textile industry. Mrs. Mohita Indrayan, Director, has a post graduate degree from National Institute of Fashion Technology (NIFT) with around 15 years of experience in the textile industry.

Growth in operating income: ICL's revenues registered around 36 per cent growth in FY2016-17 over the previous year. Revenue stood at Rs.114.74 crore in FY2016-17 (Provisional) as against Rs.83.82 crore in FY2015-16. The growth is on account of increase in Point-of-Sale from 400 as on 31 March, 2016 to 460 as on 31 March, 2017. SMERA believes that ICL will continue to leverage on its well diversified distribution network across the country leading to consistent growth in revenues.

Healthy capital structure: ICL's tangible networth is healthy at Rs.57.06 crore as on 31 March, 2017 as against Rs.56.79 crore as on 31 March, 2016. The gearing is comfortable at 0.61 times as on 31 March, 2017 (previous year 0.31 times). The total debt of Rs.34.95 crore majorly comprises working capital funding to the tune of Rs.34.46 crore as on 31 March, 2017. SMERA believes that ICL will continue to maintain its healthy capital structure in the absence of debt funded capex.

Weaknesses

Highly competitive nature of the apparel industry: ICL's operating profit margins have been uneven during the period under study due to the highly competitive nature of the apparel industry. The margins declined to 4.78 per cent in FY2015-16 from 5.72 per cent in FY2014-15 on account of higher discounts. However, with increasing brand visibility and acceptance over a period of time, the operating margins improved to 5.24 per cent in FY2016-17 (Provisional). The persistent decline in profit margins also resulted in lower than expected debt protection metrics. The interest coverage ratio declined to 1.45 times in FY2015-16 from 1.91 times in FY2014-15. It remained stable at 1.48 times in FY2016-17 (Provisional).

Working capital intensive operations: ICL's operations are working capital intensive marked by GCA of 312 days in FY2017 as against 346 days in FY2016. This is on account of high inventory and debtor days. However, the inventory days of the company reduced from 198 days in FY2016 to 134 days in FY2017 (Provisional) due to improvement in stock liquidation mechanism. SMERA believes that the efficient working capital management will be crucial in order to maintain a stable credit profile.

Analytical approach: SMERA has considered the standalone business and financial risk profile of ICL to arrive at the rating.

Outlook: Stable

SMERA believes that 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 – Key Financials

For 2015-16, ICL reported net profit of Rs.0.22 crore on operating income of Rs.83.82 crore compared with profit after tax (PAT) of Rs.0.91 crore on operating income of Rs.69.89 crore in FY2014-15. As per provisional financials for FY2016-17, ICL registered PAT of Rs.0.44 crore on operating income of Rs.114.74 crore.

Applicable Criteria

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

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History (Upto last three years):

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
21 April, 2017	Cash Credit	Long Term	24.50	SMERA BB+/Stable (Downgraded from SMERA BBB-/Stable)
6 October, 2015	Cash Credit	Long Term	24.50	SMERA BBB-/Stable (Upgraded from SMERA BB+/Positive)
04 November, 2014	Cash Credit	Long Term	16.20	SMERA BB+/Positive (Reaffirmed; outlook revised from Stable)
	Term Loan	Long Term	10.25	SMERA BB+/Positive (Reaffirmed; outlook revised from Stable)
	Letter of Credit	Short Term	2.10	SMERA A4+ (Reaffirmed)
06 January, 2014	Cash Credit	Long Term	16.20	SMERA BB+/Stable (Assigned)
	Term Loan	Long Term	10.25	SMERA BB+/Stable (Assigned)
	Letter of Credit	Short Term	2.10	SMERA A4+ (Assigned)

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

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	N.A.	N.A.	N.A.	35.00 (enhanced from Rs.24.50 crore)	SMERA BB+/Stable (Reaffirmed)

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ABOUT SMERA

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