

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)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations Tel: 022-67141190 Email: vinayak.nayak@smera.in Vinita Rodrigues Sr. Manager – Corporate Ratings Tel: 022-67141115 Email: vinita.rodrigues@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*