

Press Release

Induro Lifestyle Resources Private Limited

27 November, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.19.05 Cr (enhanced from Rs. 15.47 crore)
Long Term Rating	SMERA BB-/Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB-**' (read as SMERA double B minus) on the Rs. 13.33 crore bank facilities and assigned long term rating of '**SMERA BB-**' (read as SMERA double B minus) on the Rs. 2.72 crore facilities and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 3.00 crore bank facilities of Induro Lifestyle Resources Private Limited (ILRPL). The outlook is '**Stable**'. Further, SMERA has withdrawn the short term rating of SMERA A4+' (read as SMERA A four plus) assigned on the short term facility of Rs. 1.65 crore.

ILRPL, incorporated in 2008, is a Bengaluru-based company promoted by Mr. Kishan Kumar and Mrs. Panna Kishen Jain. The company is engaged in the manufacture of denim and non-denim pants for men, women and kids at its two manufacturing units at Bengaluru with total installed capacity of 14,40,000 pieces per year. ILRPL mainly procures denim fabric from manufacturing companies at Ahmedabad, Coimbatore, Bangalore and other cities and supplies to reputed apparel brands in Bangalore, Chennai and Hosur.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced management

ILRPL has been a part of the apparel manufacturing industry for around a decade which has helped it establish and maintain long standing relations with reputed customers and suppliers. The company caters to VF Brands India Private Limited, Arvind Lifestyles Brands Private Limited, Credo Brands Marketing Private Limited (Mufti), First Steps Babywear Private Limited among others. The company benefits from its experienced management. Directors, Mr. Kishan Kumar and Mr. Panna Kishen Jain collectively possess around 13 years of experience in apparel manufacturing, production and export of reputed brands including DKNY, Wrangler – Europe and Rip Curl. Mr Kumar has extensive experience in the procurement of fabric and trims from domestic and overseas vendors.

Comfortable working capital cycle

The company has comfortable working capital cycle days of 71 for FY2017 as against 77 in the previous year. The improvement in working capital cycle days is on account of quick debtors days of 10 for FY2017 as against 18 in the previous year. The company gets bills discounted from factors leading to shorter debtor days. Further, the liquidity position is comfortable with average cash credit limit utilisation at around 90 percent for the last six months ended 31 August, 2017.

Weaknesses:

Susceptibility of margins to volatility in raw material prices, cyclical in the industry

The operating margins are susceptible to fluctuations in the prices of raw material i.e cotton. The raw material cost as a percentage of total sales declined to 54.74 per cent in FY2017 from 56.09 per cent in the previous year. Other costs (total employee and other manufacturing costs) stood at 35.58 per cent of total sales as against 32.74 percent in the previous year resulting in decline in operating margins from 7.64 percent in FY2016 to 7.05 per cent in FY2017. Adverse movements in raw material prices or other input prices can affect profitability. Further, the operations are exposed to the cyclical nature of the denim industry.

Customer concentration risk

ILRPL has been supplying denim and non-denim garments to premium brands including Lee, Wrangler, US Polo, Flying Machine to name a few for the last seven years. However, since it has derived around 69 percent revenue from a single customer - VF Brands India Private Limited in FY2016-17, it is exposed to customer concentration risk.

Average financial risk profile

The financial risk profile is average marked by tangible networth of Rs. 6.45 crore as on 31 March, 2017 as against Rs. 6.17 crore in the previous year. The gearing stood at 3.12 times as on 31 March, 2017 as against 2.70 times as on 31 March, 2016. The coverage indicators are inadequate with interest coverage ratio of 1.27 times for FY2017 as against 1.57 times in the previous year. Further, the DSCR stood at 0.98 times for FY2017 as against 1.23 times in FY2016. The total outside liabilities to tangible networth (TOL/TNW) stood at 4.13 times as on 31 March, 2017 compared to 3.49 times in the previous year.

Project implementation risk

The company plans to set up a washing plant with total capacity of 4000 pieces per day at a project cost of Rs. 5.37 crore to be funded by a bank loan of Rs. 3.40 crore and the balance from promoters. The project is expected to be completed by end of November, 2017. The washing plant is expected to save huge washing expenses resulting in improvement of the operating margins. The company incurred Rs. 6.54 crore as printing, processing & washing charges in FY2017.

The timely stabilisation of the project without cost overruns and generation of optimal returns from backward integration would be a key rating sensitivity factor.

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

Outlook: Stable

SMERA believes that ILRPL will maintain a stable outlook over the medium term on account of its established presence and extensive experience of the management in apparel manufacturing. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while maintaining comfortable working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals or deterioration of the financial risk

profile on account of stretched working capital cycle or large debt-funded capital expenditure undertaken by the company.

About the Rated Entity

For FY2016-17, the company registered profit after tax (PAT) of Rs. 0.30 crore on operating income of Rs. 70.88 crore as against PAT of Rs. 0.77 crore on operating income of Rs. 74.59 crore in the previous year. The net worth stood at Rs. 6.45 crore as on 31 March, 2017 compared to Rs. 6.17 crore as on 31 March, 2016.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios & 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 (if applicable): None

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
3 March, 2016	Cash Credit	Long Term	11.00*	SMERA BB- /Stable (Assigned)
	Term Loan	Long Term	2.82	SMERA BB- /Stable (Assigned)
	Standby Line of Credit	Short Term	1.65	SMERA A4+ (Assigned)

**Includes sub-limit of Letter of Credit of Rs. 3.00 crore and Bank Guarantee of Rs. 3.00 crore*

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in crore)	Ratings/Outlook
Cash Credit	N.A.	N.A.	N.A.	12.65 (enhanced from Rs. 11.00 crore)	SMERA BB- /Stable (Reaffirmed)
Term Loan I	N.A.	N.A.	N.A.	0.57 (reduced from Rs. 1.35 crore)	SMERA BB- /Stable (Reaffirmed)
Term Loan II	N.A.	N.A.	N.A.	0.11 (reduced from Rs. 1.47 crore)	SMERA BB- /Stable (Reaffirmed)
Term Loan III	N.A.	N.A.	N.A.	2.72	SMERA BB- /Stable (Assigned)
Standby Line of Credit	N.A.	N.A.	N.A.	1.65	SMERA A4+ (Withdrawn)
Bill Discounting	N.A.	N.A.	N.A.	3.00	SMERA A4+ (Assigned)

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ABOUT SMERA

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