

Press Release

Cliff India Corporation

April 20, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B' (read as SMERA B)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs. 10.00 crore bank facilities of Cliff India Corporation. The outlook is '**Stable**'.

Cliff India Corporation (CIC), established in 2014 by Mr. F.N Durai (Proprietor) commenced commercial operations in January 2016 to manufacture and export garments (T-shirts, innerwear, sportswear). The Tirupur-based entity has installed capacity of 5000 pieces per day and exports its products to USA-based firms - Silly Souls LLC and Signature Apparels. The firm procures yarn and fabrics from Indus Clothing Corporation, a group firm, as well as from local players.

Key Rating Drivers

Strengths

- **Extensive experience of the promoter**

The firm was promoted by Mr. F.N. Durai, Proprietor, who possesses more than three decades of experience in the aforementioned industry.

- **Reputed clientele**

The firm exports its products (100 percent of sales) to USA and Europe and caters to Silly Souls LLC, Signature Apparels among others.

- **Moderate profitability**

The EBITDA margin stood at 4.49 percent in FY2015-16. The Net margin stood at 2.18 percent while the RoCE stood low at 4.77 percent in FY2016.

Weaknesses

- **Small scale of operations**

The firm commenced commercial operations in January 2016. The operating income stood at Rs.7.53 cr in FY2016 with revenue of ~Rs.22.00 cr from April 2016 to January 2016.

- **Average financial risk profile**

The financial risk was average marked by low net worth of Rs.2.22 cr and high gearing (debt-to-equity ratio) of 4.47 times as on March 31, 2016. The debt protection metrics are moderate with interest Coverage Ratio (ICR) of 2.70 times in FY2016. The NCA/TD stood low at 0.07 times while the TOL/TNW has been high at 4.76 times in FY2016.

- **Working capital intensive operations**

The operations are working capital intensive as reflected in the high gross current asset days (GCA) of 402 days as on March 31, 2016. Further, the working capital cycle was stretched to 388 days as on

March 31, 2016 due to elongated inventory holding of 344 days. The working capital limit has been fully utilised for the past six months ended 31st January, 2017.

• **Susceptibility of operating margins to volatility in raw material prices**

The raw material constitutes ~88 percent of total sales. The firm generates 100 percent revenue from exports and hence the operating margins are susceptible to fluctuations in raw material prices and forex rates. The firm operates in a highly fragmented and competitive textile industry.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Cliff India Corporation (CIC) to arrive at the rating.

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook over the medium term owing to its promoters' extensive experience. The outlook may be revised to 'Positive', if the firm achieves sustained growth in revenue while improving its profit margins and financial risk profile along with effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue and profit margins or deterioration in the capital structure or coverage indicators on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, CIC reported profit after tax (PAT) of Rs.0.16 cr on operating income of Rs.7.53 cr. The net worth stands at Rs.2.22 cr as on March 31, 2016.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	Not Applicable	Not Applicable	Not Applicable	4.75	SMERA B / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4
Term loans	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA B / Stable

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