

Press Release

IRIS Clothings Limited (ICL)
(Erstwhile IRIS Clothings Private Limited)

25 Nov, 2019



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 26.28 Cr. (Enhanced from Rs.17.90 crore)
Long Term Rating	ACUITE BB/Stable (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating to '**ACUITE BB**' (**read as ACUITE double B**) and assigned the long term rating to '**ACUITE BB (read as ACUITE double B)**' to the Rs.26.28crore of bank facilities of IRIS Clothings Limited. The outlook is '**Stable**'.

IRIS Clothings Limited (ICL) was incorporated in 2011 to take over the business of the running concern 'Iris Clothings' (proprietorship concern established in 2005). The company has listed itself on National Stock exchange (NSE) in August 2018 and constitution was changed to public limited company. The company is engaged in manufacturing of kidswear with the installed capacity of 35,000 pieces per month. The company markets its products under the brand of 'DoReMe' and has manufacturing facilities located at Howrah, West Bengal.

Analytical Approach:

Acuité has considered the standalone financial performance and business risk profile of ICL to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management

The key promoters, Mr. Santosh Ladha, Ms. Geeta Ladha and Mr. Baldev Ladha have more than two decades of experience in textile readymade garment industry. The management is also well supported by second line of key management person. The extensive experience of promoters has helped in establishing the brand name and creates market for their products.

Comfortable risk profile

The above Comfortable financial risk profile of the company is marked by healthy net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stands moderate at Rs.28.56 crore in FY2019 as compared to Rs.10.11 crore in FY2018. The gearing of the company stands comfortable at 0.74 times as on March 31, 2019 when compared to 2.20 times as on March 31, 2018. The gearing of the company has improved on account of increase in netwoth of the company. The total debt of Rs.21.21 crore in FY2019 consists of short term loan of Rs.16.15 crore and long term debt of Rs.5.06 crore. Interest coverage ratio (ICR) is comfortable and stands at 6.011 times in FY2019 as against 3.63 times in FY 2018. The debt service coverage ratio also stands comfortable at 2.95 times in FY2019 as against of 1.91 times in FY2018. Acuité believes the financial risk profile of the company will remain comfortable backed by no major debt funded capex plan over the medium term.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operations is marked by high gross current asset (GCA) days of 201 days in FY2019 as compared to 155 days in FY2018. The inventory days are high at 167 days in FY2019 as compared to 92 days in FY2018. The debtor days are stands moderate at 56 days in FY2019 and 73 days in FY2018 respectively. Company's operations are expected to remain working capital intensive, as the company is engaged in manufacturing of baby garments, which leads to an inventory holding period of around 90 days in order to meet the requirement of their regular customers.

Modest scale of operation

The scale of operation of the company stood moderate at Rs.62.06 crore in FY2019 as compared to Rs.52.94 crore in FY2018. The company has booked Rs.28.39 crore till 30th Sep, 2019 (Provisional). Acuité believes the ability of the company to scale up the operations will remain a key monitorable.

Rating Sensitivity

- Scaling up of operations.
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by modest net cash accruals of Rs.7.39 crore as against Rs.1.09 crore of yearly debt obligation. The cash accruals of the company are estimated to remain in the range of around Rs. 9.04 crore to Rs. 13.09 crore during 2020-22 against repayment obligations ranging from Rs. 1.09 crore. The working capital of the company is stretched marked by gross current asset days of 201 in FY2019. The bank limit is 90 per cent utilized by the company and the company maintains unencumbered cash and bank balances of Rs. 0.05 crore as on March 31, 2019. The current ratio of the company stood at 1.25 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes ICL will maintain a stable business risk profile over the medium term. ICL will continue to benefit from experienced management and above average financial risk profile. The outlook may be revised to "Positive" in case the company registers strong growth in scale of operations while registering sustained improvement in profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the company's scale of operations and profitability or capital structure, or in case of further elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	62.06	52.94	46.69
EBITDA	Rs. Cr.	11.16	9.00	5.32
PAT	Rs. Cr.	5.02	3.31	1.67
EBITDA Margin	(%)	17.99	17.00	11.40
PAT Margin	(%)	8.09	6.25	3.58
ROCE	(%)	21.80	25.33	35.66
Total Debt/Tangible Net Worth	Times	0.74	2.20	2.78
PBDIT/Interest	Times	6.01	3.63	2.96
Total Debt/PBDIT	Times	1.88	2.45	3.28
Gross Current Assets (Days)	Days	201	155	142

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
29-Dec-2018	Cash Credit	Long Term	12.50	ACUITE BB/Stable (Upgraded)
	Term Loan	Long Term	5.40	ACUITE BB/Stable (Upgraded)
10-Jan-2018	Cash Credit	Long Term	12.00	ACUITE BB-/Stable (Upgraded)
	Term Loan	Long Term	5.90	ACUITE BB-/Stable (Upgraded)
14-Mar-2017	Cash Credit	Long Term	10.00	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE B+/Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.28	ACUITE BB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.70	ACUITE BB/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE BB/Stable (Assigned)

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About Acuite Ratings & Research:

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