



SMERA RATINGS LIMITED

Calzini Fashions Limited (CFL)

Rating Rationale

March 18, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	5.50	SMERA BB-/Stable (Assigned)
Letter of Credit	0.75	SMERA A4+ (Assigned)
Cash Credit (proposed)	1.00	SMERA BB-/Stable (Assigned)
Letter of Credit (proposed)	0.75	SMERA A4+ (Assigned)

SMERA has assigned ratings of '**SMERA BB-**' (read as **SMERA double B minus**) to the Rs.6.50 crore long-term (fund based) bank facilities and '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.1.50 crore short-term bank facilities of Calzini Fashions Limited (CFL). The outlook is '**Stable**'. The ratings are supported by the company's experienced management and established relations with customers and suppliers. The ratings are also supported by the company's moderate financial profile. However, the ratings are constrained by the company's small-scale operations and working capital-intensive business. The ratings are also constrained by the company's exposure to intense competition in the textile (apparel) industry. The ratings note that the company's profit margins are susceptible to forex fluctuation risk.

CFL, incorporated in 2007, is a Noida-based company engaged in manufacturing and export of socks, handkerchief and caps. CFL benefits from its experienced management. Mr. U. S. Goenka, director of CFL, has 25 years of experience in the textile (apparel) industry. The company also benefits from its established relations with customers and suppliers.

CFL's moderate financial profile is reflected in leverage (debt-equity ratio) of 1.68 times as on March 31, 2014 and interest coverage ratio of 1.55 times in FY2013-14 (refers to financial year, April 01 to March 31). The company's total debt of Rs.6.82 crore (as on March 31, 2014) includes unsecured loans of Rs.0.27 crore from related parties. The aforementioned unsecured loans are subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity. CFL reported moderate operating profit margin of 5.57 per cent in FY2013-14.

CFL has small-scale operations with operating income of Rs.27.01 crore in FY2013-14. The company's operations are working capital-intensive with gross current assets (GCA) of 150 days and inventory holding period of 74 days in FY2013-14. CFL faces intense competition from several players in the textile industry. The company's profit margins are susceptible to forex fluctuation risk in the absence of a hedging mechanism.

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Outlook: Stable

SMERA believes CFL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established association with customers. 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 working capital management. The outlook may be revised to 'Negative' in case of deterioration in the company's capital structure, or in case of economic slowdown in the company's key export markets viz. UK and Middle East.

About the company

CFL, incorporated in 2007, is a Noida-based company engaged in manufacturing and export of socks, handkerchiefs and caps. CFL has a manufacturing unit in Noida, with installed capacity of 36.72 lakh pieces per annum.

For FY2013-14, CFL reported profit after tax (PAT) of Rs.0.27 crore on operating income of Rs.27.06 crore, as compared with PAT of Rs.0.25 crore on operating income of Rs.23.83 crore in FY2012-13. The company's net worth stood at Rs.3.90 crore as on March 31, 2014, as compared with Rs.3.91 crore a year earlier.

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