



SMERA RATINGS LIMITED

Merlin Creations Private Limited (MCPL)

Rating Rationale

November 27, 2013

Facilities	Amount (Rs. Crore)	Rating
Packing Credit Limit (PCL)	5.40	SMERA A4+/(Assigned)
FDBP/FUDBP	5.60	SMERA A4+/(Assigned)

SMERA has assigned a rating of '**SMERA A4+**' (read as **SMERA A Four Plus**) to the Rs.11.00 crore short-term bank facilities of Merlin Creations Private Limited (MCPL). The rating is constrained by the company's small scale of operations amidst intense competition prevalent in the garment manufacturing industry. The rating is further constrained by the company's exposure to customer concentration risk, foreign exchange rate fluctuations and raw material price volatility. However, the rating is supported by the company's long track record of operations, experienced management, moderate leverage and comfortable liquidity position.

MCPL is a Delhi-based company engaged in manufacturing and export of readymade garments and home furnishings since around two decades. MCPL has a small scale of operations with revenues of Rs.31.36 crore for FY2012-13 (refers to financial year, April 01 to March 31). The company faces intense competition from various small and large players in the garment manufacturing industry. MCPL is exposed to customer concentration risk as the company derives about 50 per cent of its total revenues from Kyra Creations Inc., USA. Moreover, the company is also exposed to foreign exchange fluctuation risk as it derives all of its revenues through exports. MCPL's profit margins are susceptible to volatility in raw material (fabric) prices. The company's raw material cost accounts for about 50 per cent of its total sales in FY2012-13.

MCPL has moderate leverage at 1.14 times as on March 31, 2013. The company has a comfortable liquidity position with average working capital limit utilisation of 42.88 per cent during April 2013 to October 2013. MCPL's promoters have over two decades of experience in the garment industry.

Rating sensitivity factors

- Ability to scale up operations while achieving higher profitability.
- Maintaining efficient working capital management.

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About the company

MCPL was incorporated in 1998 to takeover running business of Merlin Creations — a partnership firm established in 1994 by Mr. Sameer Kohli and Ms. Amita Naithani. MCPL is engaged in manufacturing of readymade garments and home furnishings. MCPL has a manufacturing facility in Gautam Budh Nagar, Noida.

For FY2012–13, MCPL reported net profit of Rs.0.61 crore on total income of Rs.31.36 crore as compared with net profit of Rs.0.36 crore on total income of Rs.20.62 crore for FY2011–12. Further, the company registered revenues of Rs.16.00 crore (provisional) during April 2013 to October 2013. MCPL's net worth stood at Rs.5.13 crore as on March 31, 2013.

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