

IRIS Clothings Limited

Rating reaffirmed at 'CRISIL BBB- / Stable'; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.35 Crore (Enhanced from Rs.30 Crore)
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable' rating on the long-term bank facility of IRIS Clothings Ltd (IRIS).

The rating also reflects the extensive experience of the promoters in the readymade garments industry, and the sound operating margins of the company. These strengths are partially offset by the working capital-intensive operations and exposure to intense competition.

Analytical Approach: Not applicable

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of the promoters: Presence of over 15 years in the readymade garments industry has enabled the promoters to develop a strong understanding of local market dynamics and maintain healthy relationships with suppliers and customers. Prominent presence of the brand 'DOREME' in the kids casual-wear industry has led to an established market position for the company.

Sound operating margins: Operating margins have remained healthy indicated by EBIDTA (earnings before depreciation, interest, tax and amortization) of ~17% for the fiscal ended March 2023, driven by strong brand value aiding premium realisations and an experienced management. Operating margins have remained in the similar range over the past few fiscals, and this will continue to support to build up sound operating efficiency of the company over the medium term.

Comfortable financial risk profile: Gearing stood at 0.50 time as on March 31, 2023, aided by a moderate network around Rs 56.9 crore and lower reliance on external debt. Debt protection metrics were also robust due to lower debt and healthy profitability: interest coverage and net cash accrual to adjusted debt ratios were around 6.7 times and 0.48 time, respectively, for fiscal 2023. Better accretion to reserves and absence of any major term debt will continue to support the financial risk profile.

Weakness:

Exposure to risk arising from intense competition and limited scale: Presence of several unorganised players as well as other kids-wear brands (both multinational and Indian) in the textile

industry limits pricing flexibility and bargaining power against customers and suppliers. Scale of operations has remained modest over the last few fiscals, as the company booked a turnover of Rs. 113 Cr in fiscal 2023.

Working capital-intensive operations: Gross current assets stood approximately at 257 days as on March 31, 2023, (against 195 days as on March 31, 2022), driven by large receivables and inventory levels. GCAs have been high, ranging from 173 to 266 days over the previous three fiscals. It is expected to remain in the range of 175-200 going forward with higher inventory and stretch in debtors cycle.

Liquidity: Adequate

Bank limit utilisation is moderate at around 81.62 percent for the past twelve months ended March 2023. Accruals are expected to remain around 14-20 Cr over the medium term against nil repayment obligations and should continue to aid liquidity. Current ratio is healthy at 1.56 times on March 31, 2023.

Outlook Stable

The company will continue to benefit from the extensive experience of its promoters in the textile industry and their established brand value.

Rating Sensitivity factors

Upward factors

- Steady growth in revenue by more than 20% leading to stable operating margin and cash accrual of over Rs 18 crore.
- Better working capital management
- Increased cushion in bank limit, aiding liquidity

Downward factors

- Steady decline in revenue or operating margin, resulting in net cash accrual below Rs 5 crore.
- Further stretch in working capital cycle or any large, debt-funded capital expenditure weakening the capital structure.

About the Company

Incorporated as a proprietorship in 2011, and reconstituted as a public limited company in 2012, IRIS manufactures readymade garments for kids under the DOREME brand at its facility in Howrah, West

Bengal. Operations are managed by the promoters, Mr Santosh Ladha, Ms Geeta Ladha and Mr Baldev Ladha. The company was listed on the National Stock Exchange in October 2018.

Key Financial Indicators

As on / for the period ended March 31		2023	2022
Operating income	Rs crore	113.01	111.68
Reported profit after tax	Rs crore	8.26	10.15
PAT margins	%	7.30	9.09
Adjusted Debt/Adjusted Net worth	Times	0.50	0.52
Interest coverage	Times	6.7	9.00

**FY 2023 numbers are as per quarterly report published by the company*

Status of non cooperation with previous CRA: Not applicable

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size	Complexity Levels	Rating Assigned
					(Rs Cr)		with Outlook
NA	Cash Credit	NA	NA	NA	35.0	NA	CRISIL BBB-/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	35.0	CRISIL BBB-/Stable		--	12-08-22	CRISIL BBB-/Stable	13-12-21	CRISIL BBB-/Stable	23-11-20	CRISIL BB+/Stable	--

All amounts are in Rs.Cr.

Annexure – Details of Bank Lenders/Facilities

Facility	Amount (Rs. Crore)	Name of Lender	Rating
Cash Credit	30	Axis Bank Limited	CRISIL BBB-/Stable
Cash Credit	5	Axis Bank Limited	CRISIL BBB-/Stable