

Ratings

Credit rating report
December 2020
IRIS Clothings Ltd

Instrument rated	
Total bank loan facilities rated	Rs 240 million
Long-term rating	CRISIL BB+/Stable (assigned)
<i>(Refer Annexure 1 for facility details)</i>	

Rating history				
Date	Long-term	Fixed deposit	Short-term	Rating watch/outlook
November 23, 2020	CRISIL BB+	-	-	Stable

CRISIL has assigned its '**CRISIL BB+/Stable**' rating to the long-term bank facilities of IRIS Clothings Ltd (IRIS).

Rating drivers

Strengths

- Extensive experience of promoters in the readymade garments industry
- Sound operating efficiency
- Comfortable financial risk profile

Weaknesses

- Small scale of operations amid intense competition
- Large working capital requirement

Outlook: Stable

IRIS should continue to benefit from extensive experience of its promoters and established relationships with clients.

Rating sensitivity factors

Upward scenarios

- Substantial increase in revenue and operating margin steady at above 20%, leading to higher-than-expected cash accrual
- Significant improvement in working capital cycle

Downward scenarios

- Operating profitability margin dropping by over 400 basis points
- Further sizeable stretch in working capital cycle
- Any large, debt-funded capital expenditure

Liquidity risk profile: Stretched

Liquidity is likely to remain constrained by large working capital requirement. Cash accrual is projected at over Rs 9.00 crore per annum over the medium term, against yearly debt obligation of Rs 2.48 crore; the surplus cash will aid financial flexibility. Bank limit utilisation was high and averaged 91% during the 12 months through September 2020. However, current ratio was healthy at 1.52 times as on March 31, 2020.

About the company

IRIS was incorporated as a private-limited company in 2011 and got reconstituted into a public-limited company listed on the National Stock Exchange in October 2018. The company, based in Howrah (West Bengal), manufactures readymade garments for kids and sells them under the brand, DoReMe. Mr Santosh Ladha, Ms Geeta Ladha and Mr Baldev Ladha are the promoters.

CRISIL's rating reflects IRIS's following strengths:

Extensive experience of promoters

The promoters' experience of 15 years, their understanding of market dynamics and healthy relationships with suppliers and customers should continue to support the business.

Sound operating efficiency

Return on capital employed ratio has been healthy at 15.30% in fiscal 2020, driven by economies of scale, strong brand commanding premium realisations and experienced management.

Comfortable financial risk profile

The financial risk profile is likely to remain supported by low debt and adequate profitability. Networth was moderate at Rs 32.11 crore as on March 31, 2020, with gearing of 1.05 times. Debt protection metrics were strong, with interest coverage and net cash accrual to total debt ratios of 4.18 times and 0.27 time, respectively, for fiscal 2020. The metrics are expected to further improve over the medium term, with projected increase in accretion to reserve; the company also intends to prepay some of its long-term debt to reduce the interest burden.

These strengths are partially offset by IRIS's following weaknesses:

Small scale of operations

The readymade garments industry is highly fragmented owing to low initial investment and limited complexity of operations. The consequent intense competition may continue to constrain scalability, pricing power and profitability. Also, threat of capacity addition by large integrated players limits growth prospects of smaller players such as IRIS.

Large working capital requirement

The working capital cycle may remain stretched over the medium term and hence will be closely monitored. Gross current assets (GCAs) have been sizeable at 154-265 days over the three fiscals through 2020. GCAs were 265 days as on March 31, 2020, (higher than 168 days for peers), driven by receivables and inventory of 95 days and 167 days, respectively. The company has to provide extensive credit to customers and maintains substantial work-in-process and finished goods inventory due to its business need and large product portfolio.

Financial policy

The financial policy has been aggressive, with total outside liabilities to adjusted networth ratio of 1.53 times as on March 31, 2020 (1.15 time a year ago). The ratio is

Ratings

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expected to improve over the medium term owing to retiring debt obligations and accretion to reserves.

Financial summary (standalone)

As on/ For the year ended March 31		2020	2019	2018
-	-	Actual	Actual	Actual
Net Sales	Rs Million	605	620	527
Operating Income	Rs Million	607	622	529
OPBDIT	Rs Million	136	113	88
PAT	Rs Million	39	52	33
Net Cash Accrual	Rs Million	89	75	52
Equity Share Capital	Rs Million	47	47	28
Adjusted Network	Rs Million	321	286	101
Adjusted Debt	Rs Million	336	212	222
OPBDIT Margins	%	22.4	18.2	16.7
Net Profit Margins	%	6.5	8.3	6.3
RoCE	%	15.3	22.1	25.1
PBDIT/Int. & Finance Charges	Times	4.24	6.09	3.69
Net Cash Accrual/Adjusted Debt	Times	0.27	0.35	0.23
Adjusted Debt/Adjusted Network	Times	1.05	0.74	2.20
Adjusted Debt/PBDIT	Times	2.43	1.85	2.47
Current Ratio	Times	1.52	1.25	1.05
Cash flow from operations	Rs Million	-39	-9	9
TOL/ANW	Times	1.53	1.15	2.93
Operating Income/Gross Block	Times	1.72	2.83	2.88
Gross Current Assets	Days	266	201	155
Debtor	Days	69	56	73
Inventory	Days	238	167	91
Creditor	Days	175	106	82

Annexure 1: Details of facilities

1.Cash Credit

#	Bank Facility	Amount (Rs.in Million)	Outstanding Rating
a.	Axis Bank Limited	210.0	CRISIL BB+/Stable
	Total	210.0	-

2.Term Loan

#	Bank Facility	Amount (Rs.in Million)	Outstanding Rating
a.	Axis Bank Limited	30.0	CRISIL BB+/Stable
	Total	30.0	-