

Rating rationale

IRIS Clothings Ltd

Long-term rating assigned

Rating action

Total bank loan facilities rated	Rs 24 crore
Long-term rating	CRISIL BB+/Stable (assigned)

1 crore = 10 million

Refer to annexure for details of instruments & bank facilities

Detailed rationale

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

The rating reflects the extensive experience of the promoters in the readymade garments industry, the company's sound operating efficiency and strong financial risk profile. These strengths are partially offset by small scale of operations in a highly fragmented industry and large working capital requirement.

Analytical approach: Not applicable

Key rating drivers & detailed description

Strengths

Extensive industry experience of the promoters: The promoters' experience of 15 years in the readymade garments industry has given them an understanding of the dynamics of the market and helped establish relationships with suppliers and customers.

Sound operating efficiency: The healthy operating efficiency is reflected in healthy return on capital employed of 15.30% in fiscal 2020, driven by economies of scale, strong brand commanding premium realizations, and experienced management.

Comfortable financial risk profile: The capital structure has been healthy due to low reliance on external funds resulting in gearing of 1.05 times and moderate networth of Rs 32.11 crore as on March 31, 2020. The debt protection metrics have been adequate due to low leverage and healthy profitability. The interest coverage and net cash accrual to total debt ratios were 4.18 times and 0.27 time, respectively, for fiscal 2020. The debt protection metrics are expected to improve over the medium term with growth in sales leading to accretion to reserve and low debt obligation. The company also intends to prepay some of its long-term debt to reduce the interest burden.

Weaknesses

Small scale of operations in a highly fragmented industry: The low initial investment and limited complexity of operations have resulted in the presence of a large number of small, unorganised players in the readymade garments industry. The high fragmentation constrains the pricing flexibility and bargaining power of players. Also, the threat of capacity addition by large integrated players limits growth prospects.

Large working capital requirement: Gross current assets were at 154-265 days over the three fiscals through 2020 and at 265 days as on March 31, 2020, as against 168 days for some peers. The large working capital requirement is driven by sizeable receivables and inventory. The company has to provide extensive credit to customers and has to hold large work-in-process and finished goods inventory due to its business need and large product portfolio.

Liquidity profile: Stretched

Bank limit utilization was high at 91% on average during the 12 months through September 2020. Cash accrual is expected over Rs 9 crore against term debt obligation of Rs 2.48 crore over the medium term, and will cushion liquidity. Current ratio was healthy at 1.52 times on March 31, 2020.

Outlook: Stable

CRISIL believe IRIS will continue to benefit from the extensive experience of its promoters and established relationships with clients.

Rating sensitivity factors

Upward factors

- Steady increase in revenue and operating margin sustained above 20%, leading to higher cash accrual
- Improvement in the working capital cycle

Downward factors

- Decline in operating profitability by over 400 basis points
- Stretch in the working capital cycle or large capital expenditure weakening the capital structure.

About the company

IRIS was incorporated in 2011 as a private limited company and was reconstituted as a public limited company listed on the National Stock Exchange in October 2018. It manufactures readymade garments for kids which it sells under the DOREME brand. Its manufacturing facility is in Howrah, West Bengal. The company is promoted by Mr Santosh Ladha, Ms Geeta Ladha and Mr Baldev Ladha.

Key financial indicators

As on / for the period ended March 31		2020	2019
Operating income	Rs crore	60.75	62.06
Reported profit after tax (PAT)	Rs crore	3.93	4.92
PAT margin	%	6.49	8.15
Adjusted debt/adjusted networkth	Times	0.82	0.74
Interest coverage	Times	4.18	5.96

Status of non-cooperation with previous CRA: Not applicable

Ratings

CRISIL

An S&P Global Company

Any other information: Not applicable

CRISIL Complexity Levels are assigned to various types of financial instruments. The CRISIL Complexity Levels are available on www.crisil.com/complexity-levels. Investors are advised to refer to the CRISIL Complexity Levels for instruments that they desire to invest in. Investors 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 level	Rating assigned
					(Rs crore)		with Outlook
NA	Cash credit	NA	NA	NA	21	NA	CRISIL BB+/Stable
NA	Term loan	NA	NA	June'23	3	NA	CRISIL BB+/Stable