

July 10, 2017

Mira Exim Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	40.00 (enhanced from Rs 39.00)	Revised to [ICRA]A4+ from [ICRA]A3
Unallocated	0.00 (reduced from 1.00)	Limits rated earlier under long term scale have been allocated to under short term scale only
Total	40.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised the short-term rating to [ICRA]A4+ (pronounced as ICRA A four plus)¹ from [ICRA]A3 (pronounced as ICRA A three) on the Rs. 40.00-crore (enhanced from Rs 39.00-crore) fund-based limits of Mira Exim Ltd. (MEL). The bank lines rated earlier on the long-term scale have been allocated to short-term scale. Given that there is no amount rated on the long-term rating scale at present, ICRA's long-term rating of [ICRA]BBB- (Negative) (pronounced triple B minus with a Negative outlook) assigned earlier, no longer exists.

Rationale

The rating revision takes into consideration MEL's stretched working capital cycle and high limit utilisation as sales growth continues to be subdued owing to sluggish demand conditions in the USA², the UK³ and Europe (its key markets). The rating also factors in the pressure on MEL's debt-coverage indicators on account of the increase in debt repayments subsequent to the debt-funded capex; and the limited ramp up in returns pending revival in demand from the key markets. These apart, the ratings remain constrained by customer-concentration risks, in spite of the moderation in the same over the last one year and forex-fluctuation risks as is typical of this industry.

The ratings, however, are supported by MEL's established relationships with global retailers and catalogue sellers, and the experience of its promoters in the garment-export business. Further, ICRA notes that the Government of India (GoI) announced a scheme on Rebate of State Levies (RoSL) for garment exporters in September 2016, which supported the company's income and margins in FY2017. Going forward, the improvement in its working-capital cycle and liquidity position will be the key rating sensitivities. MEL's ability to ramp up sales volumes and generate adequate returns to improve debt-coverage metrics will also be closely monitored.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² US= United States America

³ UK= United Kingdom

Key rating drivers

Credit strengths

- More than thirty years of experience of promoters in the garment manufacturing and exporting industry
- Strong customer base consisting of renowned international brands
- Favourable regulatory support in the form of duty drawback and RoSL

Credit weaknesses

- Increased working-capital requirements over the last two years
- Moderation in operating revenues in FY2017 on account of weak demand sentiment in MEL's major markets
- Return indicators remained suppressed while debt repayments increased, weakening the debt-coverage indicators

Description of key rating drivers

Established in 1985, MEL is involved in the export of high-end fashion garments for women and children. The company caters to leading global retailers, such as Klingel, and J.P. Boden. Its key markets are the UK, Europe and the US. In fact, the UK is its biggest market and accounts for 37% of its revenues. However, subdued demand in key markets due to the Brexit referendum and Presidential elections in the US resulted in weaker volumes for MEL in FY2017. The company's sales witnessed a 5% decline while its net profit dropped 1% in FY2017. Nonetheless, its realisations were supported by a higher proportion of value-added garments. MEL's operating income was also supported by an increase in duty drawback, income from export licenses and income from RoSL.

The company's working-capital intensity increased over the last two years from NWC/OI of 32% in FY2015 to 48% in FY2017. This was due to the growing inventory levels and better credit period offered to newly-acquired clients. Further, lower demand in the fourth quarter (usually a peak season) resulted in an increase in MEL's stock level, which included expensive raw materials like embroidery and beadwork. The company's dependence on working capital limits remained high, as evidenced by the high utilisation. Despite a moderation in its overall debt levels, its debt coverage weakened owing to step up in long-term repayments. Moreover, the pending ramp up of profits for the debt-funded capex undertaken over the last few years and higher working capital requirements led to MEL's return indicators remaining subdued (RoCE⁴ of 8.9% and RoNW⁵ of 8.6% as against 9.5% and 9.5%, respectively, in the previous year and 13.7% and 14.0%, respectively, in FY2015).

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable criteria

[https://www.icra.in/Rating/ShowMethodologyReport/?id=381&Title=Indian%20Textiles%20Industry%20%E2%80%93%20Apparels&Report=Textiles%20\(Apparels\),%20Rating%20Methodology,%20Nov%202015.pdf](https://www.icra.in/Rating/ShowMethodologyReport/?id=381&Title=Indian%20Textiles%20Industry%20%E2%80%93%20Apparels&Report=Textiles%20(Apparels),%20Rating%20Methodology,%20Nov%202015.pdf)

⁴ RoCE= Return on Capital Employed

⁵ RoNW= Return on Net Worth

About the company

Incorporated in 1985, MEL is a public limited company that is promoted by Mr. Ashok Kumar Jain and his family. Mr. Jain is also the company's chairman. The firm is primarily involved in the design, manufacturing and marketing of high-end fashion garments for women and children. It buys grey fabric, gets it processed by job workers and manufactures garments from the same. It has in-house designing, sampling, stitching and finishing units across seven locations in Noida, Uttar Pradesh with a capacity of about 3 million pieces per year.

As per the provisional results for FY2017, MEL reported a net profit of Rs. 2.5 crore on an operating income of Rs. 117.1 crore compared with a net profit of Rs. 2.6 crore on operating income of Rs. 129.3 crore in the previous year.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S.No	Instrument	Current Rating FY2018			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	April, 2016	Jan, 2015	Jan, 2014
1	PCFC	Short Term	40.00	[ICRA]A4+	[ICRA] A3	[ICRA] A3	[ICRA] A4+
2	Unallocated*	Long Term	Nil (reduced from 1.00)	-	[ICRA] BBB- (Negative)	[ICRA] BBB- (Stable)	[ICRA] BB+ (Stable)

*Limits rated earlier under long-term scale have been merged under short-term scale

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of issuance/ Sanction	Coupon rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
PCFC	-	-	-	40.00	[ICRA] A4+

Source: MEL

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About ICRA Limited:

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