



**RESEARCH UPDATE NOTE**  
**IRIS CLOTHINGS LIMITED (ICL)**  
**Sector: Kids Wear Apparel**

20<sup>th</sup> Sept 2023

**NSE: IRISDOREME**

**View - BUY**

CMP : Rs. 74

Target Price: Rs 105 (In the next 18 months)

**BUSINESS BACKGROUND**

Founded in the year 2004, Iris Clothings Limited (ICL) is a fast-growing readymade garment company, that is primarily engaged in designing, manufacturing, branding and selling garments for kids wear under its brand name **DOREME** in India.

ICL's product range includes affordable and good quality apparels for infants, toddlers and children in their pre-teens, serving both their indoor and outdoor requirements. ICL has 9 manufacturing facilities spread across Howrah, West Bengal with a manufacturing capacity of 9 million units per annum and has a complete in-house integrated infrastructure right from the design conceptualisation, manufacturing, branding and selling of finished goods to wholesalers

**INVESTMENT HIGHLIGHTS**

**IRIS Clothing has reported steady numbers for FY23 & Q1 FY24**

– IRIS Clothing's reported a satisfactory performance in FY23 with revenues totalling Rs 113.11 crs as compared to Rs 111.77 crs with a EBIDTA of Rs 19.51 crs as compared to Rs 21.56 crs last year with a PAT of Rs 8.26 crs as compared to Rs 10.15 crs last year. EBIDTA growth was impacted by higher raw material costs which resulted in margins coming under pressure. The company has started its D2C e-commerce website (doreme.in) & the B2B platform for wholesalers & is witnessing an encouraging response here

In Q1FY24 sales totalled Rs 24.18 crs vs Rs 23.29 crs in Q1 last year with EBIDTA at Rs 6.34 crs vs Rs 4.23 crs with PAT at Rs 3.08 crs from Rs 1.75 crs in Q1 last year

**Doreme Brand continues to do very well in India –**

DOREME brand offers a wide range of apparels starting from infants, toddlers, junior boys and junior girls that suit both their indoor and outdoor requirements. The primary product categories that IRIS Clothings deal with are tops, T-shirts, sweatshirts, shorts, trousers, joggers, infant wear, nightwear

The Doreme brand has very good presence in 26 states across the country with Maharashtra, Rajasthan, Gujrat and Punjab being its key markets with over 150 plus distributors as on date

**KEY DATA**

FACE VALUE	Rs	2.00
DIVD YIELD	%	NA
52 WK HI/LOW	Rs	111/36
NSE CODE	INE01GN01017	
BSE CODE	NA	
<b>MARKET CAP</b>	<b>RS 601 CRS</b>	

**SHAREHOLDING PATTERN**

PROMOTERS	-	72%
BANKS, MFs & DIIs	-	%
FIIIs	-	%
PUBLIC	-	28%

**KEY FUNDAMENTALS**

YE	FY23	FY24	FY25	FY26
Rev Gr %	1.3	24	30	30
EBIDTAGr %	-9	44	37	36
PAT Gr %	-19	73	50	44
EPS Gr %	-19	73	50	44
EPS (Rs)	1.01	1.76	2.64	3.80
ROE %	16	22	26	29
ROCE %	14	18	21	25
EV/EBIDTA(x)	23	17	12	
P/E(x)		28	19	

## Other Key Business Developments –

The company has dispatched its first batch of orders of T-shirts designed with Mickey characters of the Disney universe to Rajasthan, Maharashtra, Gujarat, Delhi, among others in April 2023

Iris Clothings has signed a licensing agreement with Disney or the UTV Software Communications Private Limited, which will allow it to launch apparels designed with Disney and Marvel characters and all the characters under the Disney universe under its brand DOREME. These characters have tremendous popularity among kids and will be sold under the premium category

Going ahead Iris Clothing will be launching product categories with various other Disney characters and Marvel characters throughout the year. Another noteworthy event for Iris Clothing is that its facility has been licensed to manufacture and distribute products bearing the intellectual property of Disney. Currently the company has right to manufacture Disney based products in India but it is planning to have tie ups with other Disney partners where it can export globally from its facilities

Iris Clothings has been given the FAMA license for this by Disney, under which it can export to any of the countries in the whole world where in company will dispatch some garments under the FAMA license by Dec 23

### Disney x DOREME Summer Collection



Iris Clothings has also enhanced its infantwear vertical wins by launching the accessories line in the first half of the current fiscal. It has also launched its sportswear vertical in December 2022.

The infantwear vertical has seen very good traction and is expected to contribute materially in the coming year. Also the company has launched its undergarment segment vertical, and expects a commercial launch by Dec 23 which will help the company in the coming quarters as well

On the domestic front, the company has added 18 new distributors taking it to around 150 as on date. The company onboarded its first distributor in Uttarakhand and is expanding its reach further in other stronger markets like Maharashtra, Rajasthan, Tamil Nadu, Delhi and Punjab. Going ahead in FY24 the company plans to add another 20 distributors going ahead

For FY 24, Iris Clothing is planning a capex of around Rs 3 crs which will increase its installed capacity to around 35,000 pieces per day

The company has also finally decided to tap the third leg of expansion through Exclusive Brand Outlets to strengthen both its online and offline presence by enhancing its brand recall. Iris plans to open its first company owned EBO in September in Kolkata.

This will enable the Company to have a direct connect with the end customers and create a more effective feedback loop in addition to showcasing the comprehensive selection of products built over the years. Initially it plans to open three to five company owned EBOs in FY24 and open more stores, next year, through the franchise model.

### **What does all this mean for Iris Clothings & how big is the opportunity?**

We believe that Iris Clothings Limited is now in a transformative phase where in we are likely to see the full impact of all recently introduced business initiatives translating in to financial numbers fully going ahead from FY25 onwards.

DOREME, which the company launched within just one year of commencing operations in 2005 is now a well established brand specializing in children's apparel. DOREME caters to a broad range of clothing needs for infants, toddlers, junior boys, junior girls, ensuring that both the indoor and outdoor requirements of the children are met & its diverse product line-up includes T-shirts, trousers, joggers, night suits, Polyfill suits, rompers, and a comprehensive selection for its end customers

We believe that the Disney collection has great scalability potential wherein the company has stated that it will witness massive traction from FY25 onwards. In FY24 conservatively the company expects revenues of Rs 20 crs with EBIDTA margins of 19-20%. The product range will start with ASP of Rs 299 to Rs 1000. In the winter season the company expects an ASP of around Rs1500

Also the Undergarments segments is also a strong business segment wherein company is planning to build a strong base slowly but surely. In the sports wear segment while the market opportunity is big within the target audience of 3-16 years, there are very few large players here which the company wants to capitalise in a big way

Most importantly Iris Clothings is now present domestically in 26 states and enjoys a distributor strength of 150 dealers as on date which is expected to grow further in the next 2 years

Also the company's potential for exports markets especially to markets like Dubai, UAE, Portugal, Zambia, Saudi Arabia and Nepal has got significantly enhanced post the Disney agreement signed by the company. This we believe could be Iris Clothings trump card as with quality approval backing of Disney coupled with a lean cost structure can help huge scalability here going ahead

Another big differentiator and a big positive for Iris Clothings is the extensive experience of its promoters. The promoters enjoy a presence of over 15 years in the readymade garments industry which has enabled the promoters to develop a strong understanding of local market dynamics and maintain healthy relationships with suppliers and customers

Also the managements foresight in understanding what the customers want, increasing focus on designing and following a integrated business model has helped the company gain strength to strength in the last few years.

More importantly now with the EBO business addition in September 2023, we believe that now all the important aspects of business growth will be captured very well going ahead which in turn which will also lead to margin expansion as D2C business is more brand driven and direct to the consumer

The management has also highlighted that its focus on lean working capital management will continue wherein the benefits of these measures will be visible starting FY24 onwards

## **Business Outlook & Stock Valuation –**

On a rough cut basis, in FY24E, Topline is expected to touch Rs 140 Crores, followed by Rs 182 Crores in FY25E and Rs 236 Crores in FY26E.

On the bottomline level, we expect the company to record a PAT of Rs 14.32 Crores in FY24E, which is expected to move upwards to Rs 21.50 Crores in FY25 and Rs 31 Crores in FY26.

Thus on a conservative basis, ICL should record an EPS of Rs 1.76 for FY24E. For FY23E and FY24E, our expectation is that earnings traction for ICL would continue to be strong, wherein we expect an EPS of Rs 2.64 and Rs 3.80 respectively.

Also, another attractive point for ICL is that, EPS growth over the next three years between FY24 to FY26, is expected to average 38% plus YoY

We have also introduced FY26 earnings, as we believe that the visibility of growth looks strong and by this time, all the initiatives of the company like digital marketing, increased market reach and increase in distributor strength will get reflected. We believe that, since the base value is still small, these numbers for FY26 look achievable.

We believe that, going ahead if the company delivers on its numbers, it could potentially enjoy a EV/EBIDTA of 20-23x. Currently on FY25 and FY26 the EV/EBIDTA works out to 16x and 12x

We had suggested the Iris Clothing stock at Rs 201 (When FV was Rs 10) with a TP of Rs 303 which was achieved earlier. We continue to remain positive on the long terms prospects going ahead

The company management, going ahead is confident of improving EBIDTA margins, because of operational efficiency and better product mix.

Looking at ICL's steady financial track record, strong product domain and strong promoters, we expect the stock to get re rated in future.

We believe ICL, is a 2 year story, which will get captured in its high valuations over a period of time, initially because of EPS growth and then multiple expansion.

**Hence, we believe that the ICL stock should be purchased at the current price, for a price target of around Rs 105 over the next 18 months.**

## FINANCIALS

YE March (Rs Crores)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Net Sales	62	60	87	111.52	113.00	140.00	182.00	236.6
EBIDTA	11.00	14.00	17.00	21.31	19.38	28	38.22	52.05
EBIDTA %	17.74	23.33	19.54	19.11	17.15	20.00	21.00	22.00
Interest	2.00	3.00	3.00	2.37	2.99	3.3	3.65	4.00
Depreciation	2.00	5.00	5.00	5.6	5.3	5.6	5.9	6.2
Other Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit Before Tax	7.00	6.00	9.00	13.57	11.2	19.1	28.67	41.85
Profit After Tax	5.00	4.00	7.00	10.14	8.26	14.32	21.5	31.00
Diluted EPS (Rs)	0.61	0.49	0.86	1.24	1.01	1.76	2.64	3.80
Equity Capital	16.31	16.31	16.31	16.31	16.31	16.31	16.31	16.31
Reserves	24.00	27.5	22.5	32.00	41.00	55.32	76.82	106.82
Borrowings	21.00	27.28	27.11	33.00	35.00	36.00	37.00	38.00
GrossBlock	23.00	48.00	50.00	55.00	56.00	59.00	61.00	62.00
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company and our Estimates

## KEY CONCERNS

Any sharp rise in raw material costs especially basic input prices can impact ICL's financials adversely.

Also any negative development in the domestic textile markets, could also impact ICL's financials negatively.