

Ashapura Intimates Fashion Limited

November 17, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities-CC	57.50 (enhanced from Rs.50 crore)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE BBB+ (Triple B Plus)
Long term Bank Facilities-TL	15.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total	72.50 (Rs. Seventy Two Crore and Fifty Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to bank facilities of Ashapura Intimates Fashion Limited (AIFL) factors in consistent growth in operations with healthy operating margins backed by growing brand presence and launch of new product variants.

The ratings revision also factor in the inflow of funds from sale of stock held by AIFL in Momai Apparel limited(MAL) as well as proposed inflow of funds in the form of non-interest bearing unsecured loan from non-promoter directors. CARE notes that the money is expected to be primarily used for repayment of term loans which in turn would significantly improve the capital structure and debt service coverage indicators.

The ratings also considers experience of the promoters in branded clothing products industry, established position in the domestic lounge wear/sleep wear segment, with recognized brands and PAN India presence.

The rating, however, continues to be tempered by elongated working capital cycle; albeit improvement witnessed over last three years, inherent industry risk marked by increasing competition and vulnerability to changes in fashion trends..

CARE also notes progress on merger of MAL with AIFL. The company has received the approval of NSE and BSE, also the company has also received the National Company Law Tribunal, Mumbai Bench (NCLT) vide its order dated September 28 ,2017, has approved the Scheme of Amalgarration of MAL Limited, subsidiary of AIFL with AIFL, with appointed date of April 01, 2016.

The ability of AIFL to continue to increase the scale of operations and maintain its profitability amidst increasing competition along with efficient management of its working capital cycle are the key rating sensitivities. Any significant debt funded brand building capex is the key rating monitor able.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced of promoters

The key promoter of AIFL viz. Mr. HarshadThakkar (Chairman and Managing Director) has more than two decades of experience of readymade garments business and looks after the day-to-day operations of the company as well as takes strategic decisions. The other promoter, Mrs. DarshanaThakkar, has about decade of experience in textile industry. AIFL also have team of experienced second line of management to support the promoters having an experience of about 12-16 years in the intimate garment business.

Established brand with growing presence

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Over the years of its presence, AIFL has been able to successfully establish various brands viz. Valentine, N-Line, Night & Day, Valentine Sports, Valentine Secret Skin and Valentine Pink brands; targeted for mid-income group segment. AIFL has a strong distribution network with 115 distributors, 10 carrying and forwarding agents and about 10,000 point of sales as on October 31, 2017. AIFL's total number of EBO's has seen a significant increase from about 18 EBO' at the end of FY15 to about 35 EBOs as on October 31, 2017. AIFL also has a diverse product portfolio (loungewear, bridal night wear, honeymoon sets, bathrobes, nighties, maternity feeding nighties, lingerie and others) catering to different segments (women, men, teenagers, kids and toddlers), thereby diversifying its revenue stream. AIFL launched website for online sales and also tied up with online market place like Flipkart, Amazon, Snapdeal and others. Further, the company plans to introduce TRICCY brand for mens wear and boys wear.

Consistent growth in total operating income

The total operating income of AIFL (Consolidated) has grown at a CAGR of 25.45% over FY15-FY17, and the total operating income on a consolidated basis showed an increase of 23.56% on a yoy basis in FY17. Further, during Q1FY18, the total operating income on a standalone basis for AIFL grew by 22.93%. The growth in total operating income is attributable to increased brand presence, increase in presence at retail outlets, introduction of new brands and variants, thereby leading to improved realization and pick up in volumes over last couple of years.

Comfortable capital structure and debt coverage indicators; further improvement in capital structure expected led by expected repayment of debt

Led by higher working capital utilisation as well as increase in term loan from financial institutions, the overall gearing deteriorated marginally to 0.74x at the end of FY17 as compared to 0.62x at the end of FY16. Despite increase in interest expense in FY17, the interest coverage for AIFL improved from 3.38x in FY17 as against 3.28x in FY16. Total debt to GCA as on March 31, 2017 remained at about 4.62 as at the end of FY17 as against 4.27x as at the end of FY16.

AIFL has received about Rs.40.79 crore from the sale of 20% stake held by AIFL in MAL in the secondary market. Also, AIFL expects to receive about Rs.24.01 crore of non-interest bearing unsecured loan from its non-promoter directors, which are expected to remain subordinate to bank facilities. The proceeds will be primarily used for repayment of existing term loan. Thus by the end of March 31, 2018 the company is expected to have no term loan. This is expected to significantly improve the capital structure and debt service coverage indicators going ahead.

Key Rating Weaknesses

Elongated working capital cycle; albeit improvement witnessed over last three years

The operating cycle has witnessed a significant improvement over last three years, the average working capital cycle has reduced from 323 days in FY15 to about 209 days in FY17. The improvement is primarily attributable to significant reduction in inventory days and partly due to reduction in collection period. However, the operating cycle continues to remain high at around 6-7 months resulting into moderate liquidity position. The utilization of working capital limits though remained high at 85-90% for the past 12 months ending September 2017; however it is expected to come down with the excess funds after repayment of term loans to be used for working capital requirements. Thus liquidity position is expected to improve.

Inherent industry risk marked by increasing competition

The intimate garment industry in India is characterized by a high degree of fragmentation with majority of the market controlled by the unbranded and unorganized regional players and the balance by a few large organized and branded players. A major share of the lingerie market is held by the mid-market and economy segments, in terms of both value and volume. The super-premium and premium segments are relatively smaller, but fast-growing segments. In the present scenario, the premium and super premium segments of the lingerie industry are advancing following a consumer shift from economy and mid-market segment to the premium segment.

Vulnerability to changes in fashion trends

The branded lounge wear/ night wear segment is driven by fashion trends and its target segment's aspirations. Therefore, their association with brands may change. Thus, manufacturers need to constantly innovate and adapt to the changing preferences of the target segment. AIFL, with its team of in-house designers who work on the upcoming season's collections, is expected to have the ability to adapt to the changing market trends.

Analytical approach: Consolidated

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology - Service Sector Companies](#)
[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Incorporated in 2006, Ashapura Intimates Fashion Limited [AIFL], erstwhile Ashapura Apparels Private Limited] is engaged in the business of designing, branding, marketing and retailing of intimate garments (such as loungewear, slips bathrobes, honeymoon sets, bridal night wear, nighties, ladies inner-wear, leggings, sports wear, kids wear and others) under established brands (viz. Valentine, N-Line, Night & Day, Valentine Sports and others) through a well developed & wide distribution network and undertakes sales through organized retail chains and own outlets. The lounge wear continued to account for the major share of the revenue in FY17 accounting for about 65% of total revenue in FY17 on a consolidated basis.

AIFL has pan India presence with about 10,000 point and 35 EBO's (Exclusive Brand Outlets) as on October 31, 2017. The EBO's work on three business models namely, COCO (Company Owned and Company Operated), FOFO (Franchisee Owned and Franchise Operated) and COFO (Company Owned and Franchise Operated). The company also has DODO (Distributor Owned and Distributor Operated) which forms a part of FOFO model.

The AIFL's products are manufactured at MAL's manufacturing set up or out sourced to others depending on the design of the product. Furthermore, MAL will be merged with AIFL going forward in the swap ratio of 2.7:1 to create the entire value chain. AIFL and Momai Apparels have received approval from BSE & NSE for their merger. Further, the National Company Law Tribunal, Mumbai Bench (NCLT) vide its order dated September 28, 2017, has approved the Scheme of Amalgamation of Momai Apparels Limited, subsidiary of Ashapura Intimates Fashion Limited with Ashapura Intimates Fashion Ltd, the Scheme with appointed date of April 01, 2016.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	252.77	312.32
PBILDT	38.13	48.04
PAT	15.50	20.30
Overall gearing (times)	0.62	0.74
Interest coverage (times)	3.28	3.38

A: Audited

Status of non-cooperation with previous CRA: CRISIL Limited has conducted the review on the basis of best available information and has classified the NCD issue of Ashapura Intimates Fashion Limited as CRISIL BBB+/Stable (Issuer Not Cooperating; Rating Reaffirmed) vide its press release dated October 24, 2017.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	57.50	CARE A; Stable
Fund-based - LT-Term Loan	-	-	Sep 2026	15.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	57.50	CARE A; Stable	-	1)CARE BBB+ (19-Jul-16)	1)CARE BBB+ (20-Jan-16) 2)CARE BBB- (07-Apr-15)	-
2.	Fund-based - LT-Term Loan	LT	15.00	CARE A; Stable	-	-	-	-

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