Credo Brands Marketing Private Limited

March 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	13.82 (Reduced from 15.06)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	70.00	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	**83.82** **(Rs. Eighty-Three Crore and Eighty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to bank facilities of Credo Brands Marketing Private Limited (CBMPL) continues to derive strength from experience of promoter in retail lifestyle industry, established brand name 'Mufti', widespread distribution network with focus on asset light business model, company's arrangement with suppliers, significant improvement in scale of operation and profitability in 9MFY22, comfortable capital structure and strong liquidity profile of the company.

However, the ratings are constrained by deterioration in scale of operation in FY21, long operating cycle, relatively smaller size of operations under a single brand & high competition in branded apparel segment.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations above Rs.500 crore with PBILDT margins above 11.00% on a consistent basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in working capital intensity with gross current assets above 350 days on a sustained basis
- Increase in overall gearing above 1.00x on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter in the retail lifestyle industry

Mr. Kamal Khushlani, the main promoter of the company has experience of more than two decades in the retail lifestyle industry. He started as a designer and launched the clothing line under brand 'Mufti' in 1998. The promoter is well-supported by qualified professionals.

Established brand name and widespread distribution network

The brand 'Mufti' is targeted towards the youth in the premium segment within the men's casual wear category viz. Shirts, Jeans/ Trousers and T-shirts. The company enjoys the established brand name in the domestic market through its consistent efforts on advertisement and promotion. The company sells through various channels and has been focussing on increasing retail presence. The company sells its products primarily through EBO (54.93% of total sales in FY21 vis-à-vis 48.35% in FY20), MBO (26.59% of total sales in FY21 vis-à-vis 30.32% in FY20), large format stores (LFS), which contributed 3.57% during FY 21 (vis-à-vis 6.03% of sales during FY20). E-business contributed 10.22% of total sales during FY21. (vis-à-vis 11.98% during FY20). Others includes sale of accessories & fabric which was at 4.69% of total sales in FY21 vis-à-vis 3.32% in FY20.

Company's arrangement with supplier

Company continues to outsource the manufacturing of the garments to the known players such as Grace Creation, Best Sellers Apparels Pvt Ltd, Nehal Trading, Vaishnavi Global Pvt Ltd etc. The design for the fabric is also finalised by the company. This enables the company to have a control over the quality of fabric and enjoy the benefits of bulk buying.

Albeit deterioration in TOI in FY21, significant improvement in scale of operation and profitability in 9MFY22

Company's sales declined by 34% to Rs. 295 crores in FY21 vis-à-vis Rs. 450 crores in FY20 on account of covid lockdowns during last year where the retail outlets were closed for a significant amount of time. However, the company has seen recovery in operations with significant increase in sales by 37% to Rs 258.12 crores in 9MFY22 vis-à-vis Rs. 188 crores in 9MFY21. Company's PBILDT margin was 10.57% in FY21 vis-à-vis 10.1% in FY20, further it improved 14.11% in 9MFY22 vis-à-vis 6% in 9MFY21 due to rationalisation of salaries and rent negotiations.

Comfortable capital structure

The company continues to have a comfortable financial risk profile marked by negligible reliance on external debt, healthy cash accruals and adequate liquidity. Overall gearing level remained comfortable at 0.08x as on March 31, 2021 vis-à-vis 0.23x as on

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

March 31, 2020 due to non-utilisation of the working capital limits. PBILDT interest coverage was at 5.68x during FY21 vis-à-vis 6.93x during FY20, this reduction was due lower base on PBILDT on account of lower sales during FY 21. Total debt to GCA stood at 0.75x as on March 31, 2021 vis-a-vis 1.41x as on March 31, 2020.

Key Rating Weaknesses
Long operating cycle
The company's operating cycle stood at 231 days during FY21 vis-à-vis 158 days during FY20. This has been due to increase in collection days from 103 days in FY 20 to 163 days in FY 21 and increase in inventory days from 74 days to 108 days in FY 21. However, the actual collections period was around 100 days in last year with majority of the receivable's o/s accounting for Q4 sales in FY 21. The company has to maintain inventory at its warehouses located in Bengaluru and Mumbai from where the supplies are made to its stores across all locations. Nevertheless, in spite of high operating cycle the company's working capital utilisation remains almost unutilised for the last 12 months ending December 21 since the company was able to manage its working capital requirements through internal accruals

Relatively small size of operations and operating with a single brand
Company has a relatively smaller scale of operations, as its focus is on a singular segment, which is the men's casualwear, with many of its competitors catering to a wider target segment.

High competition in branded apparel segment
The Indian apparel industry is highly fragmented in nature and unorganised sector accounts for more than 60% of the industry and international brands accounts for around 20% of the organized sector. The company faces competition from the players in the unorganized sector as the entry barrier is low and also from the large apparel players with the established Indian and foreign brands due to which the company has not been able to increase prices in jeans and shirts segment. Many foreign brands have entered the Indian retail market, especially in the branded apparel segment. However, the products of the company are priced lower as compared to the branded apparels marketed by the foreign companies. With rising income levels, and aspirations for branded apparels the company is likely to benefit by opening new stores in the tire III and IV cities. With the entry of large corporate houses in the retail space and possibility of higher presence of foreign apparel players through the formation of joint ventures (JVs)/tie up/on its own will further intensify the competition. Further, the lifestyle retailing will also continue to be vulnerable to changing fashion trend and macroeconomic outlook**.**

Liquidity: Strong
Liquidity is marked by strong projected cash accruals of Rs 35.20 crores against negligible repayment obligations of Rs 1.76 crores during FY22. The un-encumbered cash balance of the company as Feb 23, 2022 is Rs. 64.97 crores. With a gearing of 0.08 times as of March 31, 2021 and projected gearing of around 0.38x, the company has sufficient gearing headroom to raise additional debt for its capex. However, there are no major capex plans of the company in the coming year. The working capital utilisation for the last 12 months ending December 21 has been almost NIL (sanctioned limit of Rs 70 crores) and its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Retail

About the Company
Credo Brands Marketing Private Limited (CBMPL), incorporated in 1999, is engaged in the marketing of men's fashion garments in the lifestyle category under the brand name of "MUFTI". Since its inception, Mufti has evolved as a brand that offered casual wear in the shirt and denim categories; to one that now offers a range of T-shirts, shorts, joggers, outerwear, blazers and some accessories also. Marketed and distributed by CBMPL, Mufti was the brainchild of Mr. Kamal Khushlani, founder and CEO of the company, who has over 20 years of experience in the industry. The company has outsourced the garment manufacturing activities and manages only designing/branding/marketing through various stores across India. The company carries out sales through store formats such as Exclusive Brand Outlets (EBOs), Multi Brand Outlets (MBOs) and Large Format Stores (LFS). In case of EBOs, the company follows the three models viz. Company owned company operates (COCO), Company owned franchisee operates (COFO) and Franchisee owned franchisee operates (FOFO). The company has 316 stores as on December 31, 2021 vis-a-vis 299 stores as on December 31, 2020.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	450.32	294.98	258.12
PBILDT	45.50	31.19	36.42
PAT	15.47	9.26	18.04
Overall gearing (times)	0.23	0.08	NA
Interest coverage (times)	6.93	5.68	19.07

A: Audited UA: Unaudited NA: Not available

Status of non-cooperation with previous CRA: N/A

Any other information: N/A

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	70.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan		-	-	December 2025	13.82	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	70.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (30-Mar-21)	1)CARE A+; Stable (30-Mar-20)	1)CARE A+; Stable (08-Mar-19) 2)CARE A+; Stable (06-Apr-18)
2	Non-fund-based - ST-Letter of credit	-	-	-	-	-	1)CARE A1+ (30-Mar-20)	1)CARE A1+ (08-Mar-19) 2)CARE A1+ (06-Apr-18)
3	Fund-based - LT-Term Loan	LT	13.82	CARE A+; Stable	-	1)CARE A+; Stable (30-Mar-21)	1)CARE A+; Stable (30-Mar-20)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : N/A

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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