Credo Brands Marketing Private Limited (Revised)

March 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Fund Based	15.06	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long term/Short-term Bank Facilities-Fund Based	70.00	**CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)**	**Reaffirmed**
Total	**85.06 (Rs. Eighty-Five crore and six lacs only)**		

Details of facilities/instruments in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Credo Brands Marketing Private Limited (CBMPL) continue to derive strength from the experience of promoters, improvement in operating performance during FY20 (April 01 to March 31) with healthy profitability & return ratios, established brand name 'Mufti', widespread distribution network with focus on asset light business model with comfortable overall gearing. The ratings are however tempered by a long operating cycle, relatively small size of operations under a single brand & increasing competition from e-commerce.

Key Rating Sensitivities

Positive Factors

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

Negative Factors

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

Detailed description of the key rating drivers

Key Rating Strengths

Promoter's experience 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 launched men clothing line under the brand "MUFTI-Alternate Clothing" in 1998. The promoter is supported by a team of 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 spends around Rs.1-2 crore of the sales on the promotion, advertisement and branding activity. The company sells its products through EBO (48.35% of total sales in FY20 vis-à-vis 48.49% in FY19), MBO (30.32% of total sales in FY20 vis-à-vis 33.22% in FY19), and large format stores (LFS), which contributed 6.03% during FY 20 (vis-à-vis 4.21% of sales during FY19). E-business contributed 11.98% of total sales during FY20. (vis-à-vis 9.26% during FY19). Others includes sale of accessories & fabric which was at 3.32% of total sales in FY20 vis-à-vis 4.83% in FY19. During FY21, due to the ongoing Covid-19 pandemic & many stores being closed for operations, EBO stores were the primary source of revenue at 60.96% during 9M FY 21 (increase from 48.35% in FY20) with a reduction in revenue share for MBO stores (from 30.32% in FY20 to 18.64% during 9MFY21). This was also seen in LFS, which contributed 2.92% in 9MFY21 vis-à-vis 6.03% during FY20. With some of the clientele moving towards online shopping, revenue share of e-business improved from 11.98% during FY20 to 12.61% during 9MFY21. The company sales are mainly through EBOs and MBOs wherein majority of the stores are franchisee managed requiring low capital expenditure.

Improvement in operational performance in FY20; however slightly subdued in FY21 due to Covid-19 pandemic

During FY20, the company's TOI improved by 13.85% from Rs.395.53 crore during FY19 to Rs.450.33 crore during FY20, also reflecting in an improvement in PBILDT levels, improving by 14.32% (from Rs.39.80 crore in FY19 to Rs.45.50 crore in FY20). Due to increase in interest, post the sanction of term loan during FY20, PAT levels reduced by 9.85% (from Rs.17.16 crore in FY19 to Rs.15.47 crore in FY20). CBMPL's PBILDT margins are in the 10-10.5% range with PAT margins around 3.4-4.3% range. During 9MFY21, CBMPL recorded revenue of Rs.187.79 crore & PBILDT of Rs.11.27 crore. As per the management, company expects to close FY21 at around Rs.300 crore with post-tax profits of approximately Rs.8-9 crores.

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

Comfortable financial risk profile
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 0.23x as on March 31, 2020 vis-à-vis 0.17x as on March 31, 2019. PBILDT interest coverage was at 6.93x during FY20 vis-à-vis 10.07x during FY19, this reduction was due to increase in interest on long term debt obligations, total debt to GCA at 1.41x as on March 31, 2020 vis-à-vis 1.28x during FY19. This was on account of new term loan which was disbursed during FY20. Going forward, the company's expansion plans (higher number of EBOs), though moderate, and incremental capital expenditure in the existing EBO's are planned to be funded entirely from internal accruals. As a result, timely breakeven of the new stores remains the key rating sensitivity.

Arrangement with suppliers
Credo continues to outsource the manufacturing of the garments to the known players such as Grace Creation, Garden City Fashions Pvt. Ltd, Best Sellers Apparels Pvt Ltd, Nehal Trading & Vaishnavi Global Pvt. Ltd. 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.

Key Rating Weaknesses

Long operating cycle
The company's operating cycle is at 158 days during FY20 vis-à-vis 163 days during FY19, on the back of improvement in collection period from 109 days during FY19 to 103 days during FY20. 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. Further, the average collection period is high as payments from EBOS's and LFS are received post-secondary sales. Nevertheless, inspite of high operating cycle the company's working capital utilisation remains comfortable at 31% for past 12 months ended February 2021.

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.

Highly competitive nature of the branded apparel segment
The Apparel Industry is fragmented and highly competitive. There are a number of major players, many niche stores and private companies that cater to specific demographics. Also, general merchandisers and foreign companies bring more competition to the sector. Having the right product is also essential; fashion trends change frequently, and companies need to adapt to varying consumer tastes quickly.

Industry Outlook
In view of the COVID19 outbreak and lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain, muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. However, the expected support from the government in terms of financial stimulus packages and wage support subsidy as well as rental waivers from the mall-owners which would help the retailers to bring down their fixed costs, will reduce the impact on their credit profile to an extent. The retailers with presence in essential commodities continue to have some cash flows to support their fixed costs.
After the control of the spread of the coronavirus and post the lock-down period, the spending as well as shopping patterns of the consumers are expected to change significantly. The consumers are likely to curtail their discretionary spending with reduced income in their hands as well as tendency to preserve cash. Also, more preference is likely towards online channels in order to avoid crowded spaces. In such times, the retailers with presence across the retail segments (grocery, apparel, appliances, accessories) as well as who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery.

Liquidity: Adequate
Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company's current ratio stands at 3.37x as on March 31st 2020. The company's working capital limits are utilised at 31.21% for past 12 months ended February 2021. The company's store capex requirement for FY22 are expected to be met through internal accruals. As on February 28, 2021, CBMPL has comfortable liquidity position in the form of cash and cash equivalents, in addition to unutilized working capital limits. It has not opted for any of the Moratorium offered by the lenders & they have not availed any COVID loan or any emergency line of credit.

Analytical Approach: Standalone

Applicable Criteria:
Rating Outlook and Credit Watch
Definition of Default
Short Term Instruments
Rating Methodology- Manufacturing Companies
Rating Methodology-Organised Retail Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

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 are 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) as tabulated below. The company has 299 stores as on December 31, 2020 vis-a-vis 304 stores as on December 31, 2019.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	395.53	450.32
PBILDT	39.80	45.50
PAT	17.16	15.47
Overall gearing (times)	0.17	0.23
Interest coverage (times)	10.07	6.93

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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/ ST-Cash Credit	-	-	-	70.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	2025	15.06	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	70.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable (30-Mar-20)	1)CARE A+; Stable (08-Mar-19) 2)CARE A+; Stable (06-Apr-18)	1)CARE AA-; Stable (11-Apr-17)
2.	Fund-based - LT-Term Loan	LT	15.06	CARE A+; Stable	-	1)CARE A+; Stable (30-Mar-20)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple

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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