Monte Carlo Fashions Ltd

August 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	200.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Total Bank Facilities	**200.00 (Rs. Two Hundred Crore Only)**		
Proposed Commercial Paper (Carved out)	100.00	CARE A1+ (A One Plus)	Assigned
Total Short Term Instruments	**100.00 (Rs. One Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and commercial paper (CP) of Monte Carlo Fashions Limited (MCFL) derive strength from the superior brand recall of 'Monte Carlo' brand being one of the market leaders in branded winter-wear segment, its wide distribution network with range of exclusive brand outlets (owned and franchisee), multiple brand outlets, national chain stores and shop in shop spread across the country coupled with operational synergies from being part of Nahar group, which is one of the largest and oldest textile groups in the country. The ratings also factor in MCFL's strong financial risk profile along with comfortable liquidity position and strong debt coverage indicators.

These rating strengths are, however, partially off-set by high seasonality of revenues which are also geographically concentrated towards North and East India with high dependence on single brand 'Monte Carlo'. The ratings also take into cognizance of the working capital intensive nature of operations with high debtor and inventory holding period coupled with presence in highly competitive industry which is also fragmented and sensitive to economic downturns.

Key rating Sensitivities

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

- Increase in scale of operations with diversified revenue base and maintenance of PBILDT margins over 18% on a sustained basis.
- Total Debt to EBITDA below 1x on sustained basis.
- Diversification across geographies (within and outside India) and product segments (such that seasonality in revenues gets reduced) supporting return indicators.

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

- Significant decline in scale of operations & profitability margins along with return indicators on a sustained basis
- Any large debt funded capex such that total debt/EBITDA increases over 1.5x on a sustained basis
- Stretch in its working capital cycle leading to deterioration in liquidity profile

Detailed description of the key rating drivers

Key Rating Strengths

Superior brand recall with widespread distribution network & pan India presence

Monte Carlo as a brand was established in 1984 and offers a comprehensive product portfolio of garment & winter wears across woolen, cotton & cotton blended, women apparels, home furnishing and kids segments. The company sells its product under umbrella brand of Monte Carlo and is one of the market leaders in winter wear segment.

The company has successfully established its presence pan-India through a widely spread distribution network, spanning across 20 states of the country. The distribution network comprises a range of exclusive brand outlets (EBO; 42 owned and 256 franchisee), multiple brand outlets (MBO; 1777), national chain stores (NCS; 622) and shop in shop (SIS; 153) spread across the country as on March 31, 2021. Its strong distribution network helps MCFL in its brand building and customer engagement and through MBO channel it can expand its geographical reach with minimum investment. Highest revenue contribution is derived from MBO and NCS channel, contributing about 53% of turnover in FY21 (FY20: 53%) with franchisee based EBOs contributing about 31% (FY20: 32%) during the same period.

Additionally, the company has increased focus on the online distribution channel, both through own website as well as channel partners like Amazon, Flipkart and Myntra. The revenue from this segment contributed Rs.37 cr in FY21 to the total topline (i.e. 6%) as compared to Rs.24 cr in FY20 (i.e. 3% of total revenues).

Operational synergy from being part of Nahar group

MCFL is part of the Ludhiana-based Nahar Group, which is one of the largest and oldest textile groups in the country with vertically integrated operations from spinning to garmenting and retailing. The group was established by late Mr. Vidya Sagar Oswal with business interests in textiles, retail, BOPP films, renewable power, real estate, sugar and financial services. Currently, Mr. J.L. Oswal, son of Mr. Vidya Sagar Oswal is the Chairman of the group and MCFL. The group has been engaged in textile business since 1949.

MCFL has successfully leveraged the strength of its group company Oswal Woollen Mills Ltd (OWML) which is one of the oldest and largest manufacturers of worsted woollen yarn in North India, by procuring significant portion of its yarn purchase from the same. MCFL also purchases some part of its fabric material from another group company; Nahar Spinning Mills Ltd (NSML). The other companies in the Nahar Group include Nahar Industrial Enterprises Limited, Nahar Capital and Financial Services Limited, Nahar Poly Films Limited (CARE A-/ Stable/ A2+ vide PR dated Dec 21, 2020) and Vanaik Spinning Mills Limited.

Strong financial risk profile

The financial risk profile is robust marked by low dependence on debt. The overall gearing ratio stood at 0.25x as on Mar 31, 2021 as compared to 0.30x as on Mar 31, 2020. Further, total debt to PBILDT ratio stood at 1.20 years as on same date (PY: 0.63 years as on Mar 31, 2020).

Although, the scale of operations continues to remain limited, the revenues have registered a CAGR of 12% during FY18-20. However, in FY21, the topline was impacted by covid-19 and therefore, witnessed de-growth of 14% resulting in total income of Rs.633 cr as against Rs.736 cr in FY20. The PBILDT margin reported improvement from 18.32% in FY20 to 20.08% in FY21 on the back of cost saving initiatives implemented by the management during the outbreak of covid-19. Despite the pandemic, the company managed to report strong cash accrual generation of Rs.98 cr in FY21 as against Rs.95 cr in FY20. This augurs well for the company, considering its low debt repayment obligations in the near-to-medium term. Interest coverage ratio, though deteriorated in FY21, remained healthy at 9.42 times (PY: 7.93 times in FY20).

Liquidity: Strong

The company's liquidity position stands strong. Unencumbered Cash and liquid investments of the company stood at Rs.131.89 cr crore as on March 31, 2021 and Rs.144.56 cr as on June 30, 2021. This coupled with healthy accrual generation of Rs.98 cr in FY21 places MCFL comfortably in light of its principal repayment obligations of Rs.4.60 cr in the next 4 quarters. Further, with no major capex envisaged and its ability to generate healthy accruals the liquidity position is expected to remain comfortable in the near-to-medium term. The working capital limits utilization has also remained low at 20% during past 12 months period ended June-21. However, the business is seasonal and working capital intensive in nature, leading to higher peak utilizations during Q2 and Q3 of every financial year. Nevertheless, with low overall gearing ratio, the company has sufficient gearing headroom, to raise additional debt for working capital needs. The company has also not taken any moratorium from its lenders and is repaying as per schedule.

Key Rating Weaknesses

High seasonality of revenues along with geographical concentration and high dependence single brand

The company remains largely dependent on its winter-wear sales with majority of turnover being reported in the third quarter of every fiscal year, ranging between 55%-65% of total annual sales. This seasonality of operations exposes MCFL to any adverse change in climatic cycles. Further, on account of tropical weather conditions, there is high concentration of revenues from North and East Indian states together contributing 75% of total revenues in FY21 (PY: 76% in FY20).

Moreover, despite diversified product portfolio and emergence of new brands by the company, majority of contribution is from single brand 'Monte Carlo'.

High working capital intensive nature of operations

MCFL's business is working capital intensive due to the high levels of inventory and credit sales to its distribution channel partners. The company stocks up its inventory well-in-advance for meeting the demand during its season. Though, there are 2 season cycles- winter and summers, the inventory levels peak out in the month of September (beginning of winter season) due to high dependence on winter wear sales. The average inventory holding period stood at 160 days in FY21.

On the debtors' front, the company has a major portion of credit sales to its distribution channel partners, for outlets such as SIS and MBOs which leads to high debtor days. Average collection period stood at 140 days as on March 31, 2021, leading to working capital cycle of 190 days as on same date. The company primarily relies on the outright sale model with limited provision for sales returns which partially mitigates the risk of inventory obsolesce from the unsold stock.

Highly competitive industry & sensitive to economic downturns

The Apparel Industry is fragmented and highly competitive. There are several 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. Since, the fashion trends change frequently, the companies need to adapt to varying consumer tastes quickly and this also mandates high marketing spends to maintain market presence. The industry is also sensitive to economic downturns.

Industry outlook

In view of the COVID19 outbreak and lowering of the discretionary spending by the consumers in these times of economic downturn, the performance of the Indian players in manufacturing and retail sector is expected to be impacted in the short to medium term. The impact on demand 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 have changed 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 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.

Analytical approach: Standalone.

Applicable criteria

Criteria on assigning outlook and credit watch to ratings
CARE's policy on default recognition
Financial ratios- Non-Financial sector
Liquidity Analysis of Non-Finance sector companies
Criteria for short-term instruments
Rating Methodology for cotton textile manufacturing
Rating methodology- Manufacturing companies

About the Company

MCFL was incorporated in July 2008 as a wholly owned subsidiary of Oswal Woollen Mills Limited (OWML) and part of Ludhiana based Nahar group, which is one of the oldest textile groups in the country. MCFL is a manufacturer and retailer of apparels, which retails its products under the 'Monte Carlo' brand, which is an established brand in the domestic apparel market. The brand has established presence in the winter-wear segment.

Pursuant to the scheme of arrangement and demerger with OWML, the apparel business of OWML, comprising manufacturing facilities, sales distribution network and ownership of the 'Monte Carlo' brand, were transferred to MCFL with effect from April 1, 2011. Thereafter, MCFL ceased to be a subsidiary of OWML. The company has diversified its portfolio by launching brands such as Denim, Alpha, Rock-it, and Cloak & Decker.

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

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	736.07	633.56
PBILDT	134.90	127.13
PAT	62.71	66.21
Overall gearing (times)	0.30	0.25
Interest coverage (times)	7.93	9.42

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-Term Loan	-	8.45%	March-26	15.00	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	185.00	CARE AA-; Stable
Commercial Paper-Commercial Paper (Carved out)	Proposed	-	-	100.00	CARE A1+

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.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	15.00	CARE AA-; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	185.00	CARE AA-; Stable	-	-	-	-

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based - LT-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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact No.: +91 22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ravleen Sethi
Group Head Contact no: +91-11 - 4533 3251
Group Head Email ID: ravleen.sethi@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**