Credo Brands Marketing Private Limited

March 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.91 (Reduced from 13.82)	CARE A+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	70.00	CARE A+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to bank facilities of Credo Brands Marketing Private Limited (CBMPL) continues to derive strength from the vast experience of the promoter in retail lifestyle industry, presence of well-established brand name 'Mufti' coupled with having widespread distribution network with focus on asset light business model, the company's arrangement with suppliers, healthy financial risk profile due to limited reliance on external debt and strong liquidity profile. The ratings also factor in the improvement in the scale of operations and operating profit margins in FY22 (refers to the period from April 01 to March 31) and in 9MFY23.

The ratings, however, continue to be tempered by the relatively moderate scale of operations, dependency on the single brand, elongated operating cycle and inherent risks associated with the lifestyle retailing industry in the backdrop of changing consumer preferences and prevailing intense competition in the apparel segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations above ₹650 crore with PBILDT margins sustaining above 21% on a sustained basis leading to cash accruals of over ₹100 crore

Negative factors

- Reduction in operating profitability below 10%
- Increase in working capital intensity with gross current assets above 350 days on a sustained basis
- Increase in overall gearing (excluding lease liabilities) above 0.50x on sustained basis

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its growth momentum coupled with favourable demand scenario that shall enable it to maintain the envisaged operating performance over the near to medium term.

Key strengths

Experienced promoter in the retail lifestyle industry

Kamal Khushlani, the main promoter of the company has an 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 Exclusive Business Outlets (EBO), Multi Branded Outlets (MBO), Large Format Stores (LFS), E-business and others includes sale of accessories & fabric.

Company's arrangement with supplier

The 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 company controls every aspect of the value chain from the design (yarn, fabric, garment) to manufacturing at each stage. This enables the company to exercise tight control over the quality of end products, while also benefiting from economies of scale from bulk purchase.

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

Growth in revenues coupled with improvement in profit margins in FY22 as well as in 9MFY23
CBMPL's sales improved y-o-y by 25.89% and stood at ₹370.74 crore in FY22 as compared to ₹294.49 crore in FY21 on account of improvement in business scenario and resumption of economic activities and the same is expected to continue. PBILDT margin improved to 18.44% in FY22 as compared to 10.43% in FY21 on account of improvement in prices as well as rationalisation of costs. During 9MFY23, it has achieved TOI of ₹421.54 crores with PBILDT margin of around 26.51%. This has led to improvement in cash accruals generated by the company. However, sustainability of the margin remains key rating monitorable.

Healthy financial risk profile
The company's financial risk profile is characterised by negligible reliance on external debt, healthy cash accruals and strong liquidity. The overall gearing level (excluding lease liabilities) as reported by the company remained comfortable at 0.04x as on March 31, 2022 as compared to 0.06x as on March 31, 2021 owing to non-utilisation of working capital limits. The same is expected to remain comfortable as the company does not have any major debt-funded capex plans going forward except for setting up a few additional EBOs which will be funded entirely through internal accruals. Furthermore, interest coverage stood at 14.10x in FY22 as compared to 5.59x in FY21 on account of improvement in profitability. CARE Ratings Limited (CARE Ratings) notes that as the company continues to follow IGAAP, the overall gearing does not factor in present value of lease liability. If this were to be considered as part of financial liabilities (as per IND-AS), the overall gearing would be on the higher side.

Key weaknesses

Long operating cycle
The company's operating cycle improved on y-o-y basis and stood at 168 days in FY22 as compared to 231 days in FY21 owing to better collection and inventory period. 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 January 2023 since the company was able to manage its working capital requirements through internal accruals.

Moderate size of operations and operating with a single brand
The 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. Furthermore, the lifestyle retailing will also continue to be vulnerable to changing fashion trend and macroeconomic outlook**.**

Liquidity: Strong

The company had liquid investments (including cash and cash equivalents) of ₹50.58 crore as on March 31, 2022. Liquidity is marked by strong projected cash accruals against negligible long-term repayment obligations in projected years. The un-encumbered cash balance of the company as December 31, 2022, is ₹18.38 crore. The company does not have any major debt-funded capex plans going forward except for setting up a few additional EBOs which will be funded entirely through internal accruals. The working capital utilisation for the last 12 months ending January 31, 2023 has been NIL (sanctioned limit of ₹70 crore) and its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

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 and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Distributors

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 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 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 354 stores as on December 31, 2022

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	294.49	370.74	421.54
PBILDT	30.70	68.37	111.77
PAT	9.26	39.55	71.55
Overall gearing (times)	0.08	0.06	0.04
Interest coverage (times)	5.59	14.10	23.58

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Not Applicable

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	03-02-2026	10.91	CARE A+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	70.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	70.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Mar-22)	1)CARE A+; Stable / CARE A1+ (30-Mar-21)	1)CARE A+; Stable (30-Mar-20)
2	Non-fund-based - ST-Letter of credit	-	-	-	-	-	-	1)CARE A1+ (30-Mar-20)
3	Fund-based - LT-Term Loan	LT	10.91	CARE A+; Stable	-	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (30-Mar-21)	1)CARE A+; Stable (30-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	**Name:** Sudarshan Shreenivas Director **CARE Ratings Limited** Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in Name: Vikash Agarwal Associate Director **CARE Ratings Limited** Phone: 022-68374427 E-mail: vikash.agarwal@careedge.in Name: Smith Jain Analyst **CARE Ratings Limited** E-mail: smith.jain@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in