

## Mangla Apparels India Private Limited

June 28, 2024

| Facilities/Instruments                 | Amount (₹ crore) | Rating <sup>1</sup>          | Rating Action |
|----------------------------------------|------------------|------------------------------|---------------|
| Long Term Bank Facilities              | 10.00            | CARE BBB+; Stable            | Assigned      |
| Long Term / Short Term Bank Facilities | 130.00           | CARE BBB+; Stable / CARE A3+ | Assigned      |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Mangla Apparels India Private Limited (hereinafter referred to as MAIPL or Mangla) derive strength from the experience and long track of record of its promoters, diversified revenue streams, healthy scale of operations albeit with moderate profitability and a healthy financial risk profile. These strengths, however, are constrained by working capital intensive operations marked by relatively high collection period, high brand and geographical concentration, and Intense competition in Indian Apparel Industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant growth in its Total Operating Income (TOI) above Rs 600 crore along with PBILDT (Profit before interest, lease rentals, depreciation and taxes) margin of more than 14% on a sustained basis.
- Improvement in its operating cycle along with sustained improvement in its operating cash flows.

#### Negative factors

- Decline in its scale of operations with PBILDT margin below 10% on a sustained basis.
- Any large debt-funded capex leading to deterioration in financial risk profile marked by overall gearing exceeding 1.20x.

### Analytical approach: Standalone

### Outlook: Stable

The "Stable" outlook reflects CareEdge Ratings' expectation of sustenance in scale of operations of the company supported by the opening of new retail stores and increased contributions from its outright business model.

### Detailed description of the key rating drivers:

#### Key strengths

##### Experienced promoters with long track record of operations

The promoter family has been active in the domestic textile industry since the 1930s, giving them an in-depth understanding of market and industry dynamics. This extensive experience has helped them establish a strong network of suppliers and customers, including partnerships with multi-brand outlets (MBOs) such as Reliance Trends, Mega Mart, and Big Bazaar. The company is led by Mr. Vivek Aggarwal, who has over 30 years of experience in the textile industry. He is supported by Mr. Pankaj Aggarwal, BBA, Mr. Piyush Aggarwal, BBA, and Ms. Chestha Aggarwal, who holds a master's degree in strategic Fashion Marketing from the University of the Arts London, London College of Fashion.

##### Stable scale of operations along with moderate profitability

The topline of the company has grown at a CAGR (compound annual growth rate) of 12% in the last 5 years, but remained stagnant in FY24 (refers to the period from April 01 to March 31) at Rs 412.54 crore (PY: Rs 424.19 crore) mainly on account of clearance of significant goods returned inventory which inherently has a low realisation due to heavy discounts offered. Further, margins were slightly moderated as marked by PBILDT margin of 10.32% in FY24 (PY: 11.32%) due to high bad debts recognised during the year. Hence, the operations of the company remain susceptible to risks associated with sales returns or inventory rationalization which might affect profitability in the medium term. Further, goods return constitutes around 10-12% of total sales in the last 5 fiscal leading to high inventory level. To curb this, the company has also tied-up with fashion factory, wherein the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

returned clothes are sold at heavy discounts throughout the year. Additionally, company has also identified various wholesale marketplaces to sell these goods returned.

### **Comfortable financial risk profile**

The financial risk profile of the company stood comfortable as marked by overall gearing of 0.75x as on March 31, 2024 improved from 1.10x on March 31, 2023 on account of accretion of profits to the net worth of the company. Additionally, debt coverage indicators moderated by stood comfortable as marked by PBILDT interest coverage ratio of 3.29x (PY: 4.35x) and Total debt/ Gross cash Accruals (TDGCA) of 5.08x as on March 31, 2024 (PY: 5.35x).

### **Diversified revenue streams**

The company markets its products under the brand name "Crimsoune Club" through four primary channels: Exclusive Brand Outlets (EBOs), shop-in-shop or large format stores (LFS), outright business with dealers, and online sales. Additionally, the company is involved in fabric trading and provides job work for other apparel brands. In FY24, approximately 20% of the company's revenue came from EBOs, 30% from large format stores, another 30% from the outright model, and the remainder from lot sales and the online channel. As of March 31, 2024, the company operated 150 EBOs nationwide, with 110 being company-owned and company-operated (CoCo) and the rest as franchise stores. The company also organizes fashion shows to showcase its new designs to its dealer network under the outright business model.

### **Key weaknesses**

#### **Working capital intensive operations**

The operations of the company remain working capital intensive due to relatively high collection period of 170 days (PY: 176) as the payment is realised from dealers post sales to end consumers. Consequently, the operating cycle of the company stood elongated at 199 days for FY24 (PY: 195 days). Additionally, to meet the diverse product demands from its extensive network of dealers and EBOs, the company needs to maintain a large inventory, leading to high inventory days of 109 days (PY: 95 days). Consequently, there is a high utilization of working capital limits. Due to the risk of inventory becoming obsolete from changing fashion trends, timely liquidation is crucial for maintaining stable operating profitability. CARE Ratings anticipates that working capital needs will stay high in near term given the business model.

#### **High brand and geographical concentration risk**

MAIPL's revenues show significant concentration risks due to reliance on a single brand and a heavy dependence on men's wear, which contributes over 70% of the annual revenue. There is also a high, though decreasing, concentration of revenue in Northeast India. However, geographical diversification of revenue is expected to improve in the coming years. The management is also taking steps to diversify its product mix by opening larger, full-family stores and launching new products in the accessories and women's segments. Nonetheless, the acceptance of the "Crimsoune Club" brand in the women's and children's segments remains a key monitorable factor.

#### **Intense competition and susceptibility to volatile raw material prices**

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. MAIPL continues to face intense competition from other lifestyle apparel brands like Mufti, Indian Terrain, Cantabil etc. and it is also inherently vulnerable to changes in fashion trends, consumer spending habits as well as economic cycles. MAIPL needs to employ effective localization strategies, understand the nuanced preferences of Indian consumers, and offer a compelling value proposition to maintain and expand its market presence in India. Additionally, since one of the key raw materials in shirt manufacturing is cotton, the margins of the company remain susceptible to volatility in global cotton prices.

### **Liquidity: Adequate**

The liquidity profile of the company is adequate as marked by projected gross cash accruals of Rs 49 crore vis-à-vis debt repayment of Rs 12 crore in FY25. Bank lines are utilized at an average of 70% over the past twelve months ending April 2024. The company has no major capex planned. The operations of the company remain working capital intensive as marked by operating cycle of 199 days. The current ratio remains moderate at 1.92 times as on March 31, 2024.

### **Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Retail](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

| Macro Economic Indicator | Sector            | Industry  | Basic Industry     |
|--------------------------|-------------------|-----------|--------------------|
| Consumer Discretionary   | Consumer Services | Retailing | Diversified Retail |

Incorporated on March 08, 2007, Mangla Apparels India Private Limited is engaged in manufacturing and retailing of clothing for men, women, and children. The company sells its products under the brand name "Crimsoune club" and sells apparel primarily through four channels: EBOs, large format stores, outright business with dealers, and online. The company has its apparel manufacturing plant in Kundli, Haryana and also has a denim manufacturing plant in Noida, UP. The company also has 150 retail stores as of March 31, 2024.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (UA) |
|----------------------------|--------------------|---------------------|
| Total operating income     | 424.19             | 412.54              |
| PBILDT                     | 48.00              | 42.56               |
| PAT                        | 23.15              | 17.76               |
| Overall gearing (times)    | 1.10               | 0.75                |
| Interest coverage (times)  | 4.35               | 3.29                |

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 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:** 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       |      | -                             | -               | August 2028                | 10.00                       | CARE BBB+; Stable                         |
| Fund-based/Non-fund-based-LT/ST |      | -                             | -               | -                          | 130.00                      | CARE BBB+; Stable / CARE A3+              |

**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 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1       | Fund-based/Non-fund-based-LT/ST        | LT/ST           | 130.00                       | CARE BBB+; Stable / CARE A3+ |                                             |                                             |                                             |                                             |
| 2       | Fund-based - LT-Term Loan              | LT              | 10.00                        | CARE BBB+; Stable            |                                             |                                             |                                             |                                             |

LT: Long term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of 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/Non-fund-based-LT/ST | 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](mailto:care@careedge.in) for any clarifications.

## Contact us

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### About us:

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