Zodiac Clothing Company Limited (Revised)

September 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB; Negative and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has reaffirmed and withdrawn the CARE BB; Negative rating outstanding on the bank facilities of Zodiac Clothing Company Limited (ZCCL) with immediate effect. The above action has been taken at the request of the company and based on the 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE Ratings.

The reaffirmation factors continued pressure on the operating and financial performances of Zodiac Clothing Company Limited (ZCCL) in FY24 and Q1 FY25 on account of delay in ramp-up of revenue from operations due to demand headwinds and losses at the PBILDT level partly due to high fixed costs. ZCCL's total income declined by ~14% YoY to Rs. 145.8 crore in FY24 with PBILDT margin of -13%. While the company recorded 15.5% YoY increase in operating income to Rs. 37.9 crore in Q1 FY25, its operating profitability remained constrained at -6.6% in the quarter. The rating also reflects the continued uncertainty on the ability of the company to generate positive cash flow from operations in the coming quarters. The rating also considers the delay in operationalisation of the proposed manufacturing unit in Bangladesh for want of regulatory clearances. The plant was earlier expected to commence operations from September 2023 but is likely to get delayed due to the current political turmoil in the country.

The rating continues to remain constrained by ZCCL's small scale of operation and continued weak financial performance. The rating also factors in intense competition in the garmenting industry and exposure of ZCCL's revenue and profitability to volatility in foreign exchange rates. The weaknesses are, however, mitigated to some extent by the company's diversified geographical presence with a network of 84 stores across India an on March 31, 2024, and adequate capital structure.

Analytical approach: Consolidated

For arriving at the rating, CARE Ratings has considered the consolidated financial statements of ZCCL along with its subsidiaries and step-down subsidiaries owing to the strong managerial, financial and operational linkages between them. The list of entities considered for consolidation is listed in Annexure- 6.

Outlook: Negative

The Negative outlook on the long-term rating reflects CARE Ratings' expectations that ZCCL's operating profitability will continue to remain constrained by demand headwinds and high fixed costs, which could put pressure on liquidity position over the near to medium term.

Detailed description of key rating drivers:

Key weaknesses:

Continued PBILDT losses and weak debt coverage indicators

ZCCL continues to record operating losses over the last four financial years with PBILDT loss for FY24 at Rs. 19.39 crore (PY: Rs. 17.70 crore) with a margin of -13.3%. This is largely attributable to an adverse cost structure with high fixed costs and low gross margin on B2B exports business coupled with pressure on revenue growth owing to demand headwinds. The trend has continued in Q1 FY25 with PBILDT loss of Rs. 2.90 crore. CARE Ratings expects the company's margins to remain constrained over the coming quarters on account of evolving demand scenario and high fixed overheads. The operating losses translate into weak debt coverage indicators with interest cover of -2.87x in FY24 (PY: -0.63x) and -1.53x in Q1 FY25. Generation of operating profits and improvement in debt coverage indicators remain key monitorable.

Small Scale of operations and delay in operationalisation of proposed plant in Bangladesh:

ZCCL's scale of operations remains small with total operating income of Rs. 145.8 crore in FY24 (PY: Rs. 174.8 crore) which limits the operating leverage of the company. While the revenue grew by ~14% YoY in FY24, ZCCL remains a marginal player in the domestic garments industry thereby impacting its market position. While the company plans to expand its retail network

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

and push sales on its webstore over the coming quarters, the uncertainty around revival in demand for garments both in India and abroad cast a shadow on the increase in ZCCL's scale over the near to medium term. The company has invested ~Rs. 7 crore in setting up a garment manufacturing facility in Bangladesh, which was originally expected to commence operations from September 2022 and later extended to September 2023. However, CARE Ratings notes that the company is yet to receive some regulatory clearances which could get further delayed in the light of the political turmoil in the country, thereby delaying the operationalisation of the plant.

Elongated working capital cycle:
ZCCL's operations remain working capital intensive characterised by large inventory holding to cater to a large product portfolio across its network of dealers and EBOs. While the average inventory days has improved to 130 days in FY24 from a high of 279 days in FY21, the inventory holding is likely to remain above 120 days over the medium term. The company also has sizeable debtors from its B2B exports business which further elongates the working capital cycle. The large inventory holding exposes the company to the risk of inventory write-offs from slow-moving inventory in the light of changing fashion trends and consumer preferences. The company is also exposed to the risks arising from volatility in raw material prices which could impact its margins.

Intense competition in the industry
ZCCL faces high degree of competition in export markets from low-cost producer countries such as Vietnam and Bangladesh, among others. The company also faces intense competition in domestic markets from large and established brick and mortar retailers and e-commerce players. The intense competition limits the pricing flexibility enjoyed by the company. Moreover, the company remains exposed to the fast changing consumer preferences and fashion trends along with the trends in discretionary spending by consumers which could impact demand.

Exposure to foreign currency fluctuation risk
The company is a net exporter with around 60% of its revenue being generated from export of garments and around 40% of the raw materials being imported. This exposes the company's revenue and earnings to the risks arising from volatility in foreign exchange rates. The risk is, however, mitigated to an extent by the company's defined forex hedging policy wherein it hedges close to 100% of exposure due within 1 year and 25% due after 1 year.

Key strengths

Diversified geographical presence and healthy brand recall
ZCCL has a diversified geographical presence with a network of 84 exclusive brand outlets across India, accounting for ~40% of its total revenue, and B2B exports of garments to clients across the globe accounting for the balance 60%. The company enjoys an established track record with its clients in the exports business. Moreover, the company benefits from the established brand recall of its flagship brand, Zodiac, which aids in attracting store footfalls.

Adequate capital structure
ZCCL's continues to maintain an adequate capital structure as indicated by overall gearing of 0.35x and TOL/TNW of 0.54x as on March 31, 2024 (PY: 0.24x and 0.45x, respectively). The company has repayment obligation of Rs. 2.58 crore in FY25 towards the outstanding term loans and an additional repayment obligation towards lease liabilities amounting to Rs 10.92 crores and Rs 12.38 crores in FY25 and FY26 respectively. With no major debt-funded capex planned by the company, the capital structure is expected to remain adequate in near to medium term.

Experienced promoters with long track record of operations
Founded by Late Mr. M. Y. Noorani, the promoters of the company have experience of more than five decades in textiles and apparels business. The business is currently led by an able management team headed by Mr. A. Y. Noorani and Mr. S. Y. Noorani, brothers of the late founder. The company over the years has grown considerably and expanded its reach in both domestic as well as international markets in formal men's wear.

Liquidity: Stretched

The liquidity remains stretched on account of operating losses in FY24 and Q1 FY25. The company has cash and cash equivalents of around Rs. 72 crore as on March 31, 2024 (encumbered and unencumbered) including Rs. 43.85 crore as non-current investments in listed equity shares and venture funds. Against this, ZCCL has repayment obligation of Rs. 2.6 crore towards GECL loan in FY25 and current maturities of lease liabilities of Rs 10.92 crores and Rs 12.38 crores in FY25 and FY26 respectively. The average utilisation of the fund-based limits was stretched at 87% for the twelve months ended March 31, 2024 on the capped limits of Rs. 40 crores.

Environment, social, and governance (ESG) risks : Not Applicable

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Withdrawal Policy](#)
[Cotton Textile](#)
[Retail](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Textiles	Textiles & Apparels	Garments & Apparels

Zodiac Clothing Company Limited (ZCCL), incorporated in 1984, is an apparel retailer operating in the men's formal wear category through its flagship brand "Zodiac". It also has products in party/club wear through its sub-brand, "ZOD!", and in relaxed casual wear through its sub-brand, "Z3".
The business was initially started by Mr. M. Y. Noorani, the promoter of ZCCL, as a partnership firm named House of Zodiac in 1954 for manufacturing neckties for men. The entity began exporting its products from 1960s and also entered into branded shirt business catering to the premium segment in 1970s. ZCCL's brands are licensed from its group company - Metropolitan Trading Company (MTC), a partnership firm that is 100% owned by the promoters, under a perpetual licensing arrangement. MTC charges a royalty of 1% over the annual turnover from ZCCL. ZCCL is engaged in cutting, stitching, washing and pressing of fabric into apparels at its manufacturing facilities are located at Bengaluru, Karnataka and Umberaon, Gujarat in India.

Standalone:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1 FY25 (UA)
Total operating income	176.48	144.12	43.68
PBILDT	0.38	-17.17	-2.61
PAT	15.79	-34.87	-9.42
Overall gearing (times)	0.25	0.39	NA
Interest coverage (times)	0.06	-2.55	-1.38

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Consolidated:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1 FY25 (UA)
Total operating income	174.81	145.80	44.19
PBILDT	-5.14	-19.39	-2.90
PAT	15.88	-36.37	-9.77
Overall gearing (times)	0.25	0.39	NA
Interest coverage (times)	0.06	-2.55	-1.53

A: Audited UA: Unaudited NA: Not Available; 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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based-Long Term		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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-Long Term	LT	-	-	1)CARE BB; Negative (12-Sep-24) 2)CARE BB; Negative (26-Aug-24)	1)CARE BB+; Negative (06-Sep-23)	1)CARE BB+; Stable (26-Sep-22)	1)CARE BB+; Positive (11-Oct-21)

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

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Zodiac Clothing Co. S.A., Switzerland	Full consolidation	100% ownership by ZCCL and similar line of business
2	Zodiac Clothing Co. (U.A.E.) LLC, UAE		
3	Zeta Technologies, Inc., USA		
4	Zodiac Clothing Bangladesh Ltd, Bangladesh		
5	Zodiac Clothing Company INC., USA		

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Achin Nirwani Director **CARE Ratings Limited** Phone: 91-22-6754 3456 E-mail: Achin.nirwani@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Raunak Modi Assistant Director **CARE Ratings Limited** Phone: : 91-22-6754 3537 E-mail: Raunak.modi@careedge.in Renuka Mahimkar Rating Analyst **CARE Ratings Limited** E-mail: Renuka.Mahimkar@careedge.in

About us:
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