

## Monte Carlo Fashions Limited

August 25, 2022

### Rating

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE AA-; Stable (Double A Minus; Outlook: Stable) and Withdrawn
<b>Total Bank Facilities</b>	<b>0.00</b> (₹ Only)		

Details of instrument in Annexure-1

### Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and subsequently withdrawn the outstanding rating of 'CARE AA-; Stable' [Double A Minus; Outlook: Stable] assigned to the bank facilities of Monte Carlo Fashions Limited (MCFL) with immediate effect. The above action has been taken at the request of MCFL and 'No Objection Certificate/ letters' received from the banks that have extended the facilities rated by CARE Ratings.

The rating of MCFL continues to derive strength from the superior brand recall of 'Monte Carlo' brand being one of the market leaders in branded winter-wear segment, its widespread distribution network coupled with operational synergies from being part of Nahar group, which is one of the largest and oldest textile groups in the country. The rating also factors in MCFL's strong financial risk profile marked by growing scale of operation with healthy profitability, comfortable capital structure and debt coverage indicators, and strong liquidity.

The rating of MCFL, however, continues to be constrained by high seasonality of revenues which are also geographically concentrated towards North and East India with high dependence on single brand 'Monte Carlo'. The rating also takes into cognizance of the working capital-intensive nature of operations owing to high inventory holding requirement coupled with presence in highly competitive industry which is also fragmented and sensitive to economic downturns.

### Detailed description of the key rating drivers

#### Key rating strengths

**Superior brand recall with widespread distribution network and pan India presence:** Established in 1984, 'Monte Carlo' brand offers a comprehensive product portfolio of woolen, cotton and cotton blended garment and winter wears apart from home furnishing and kid's segments. The company sells its product under umbrella brand of Monte Carlo which is one of the market leaders in winter wear segment. The company has established its presence through a widely spread distribution network across the country. The distribution network comprises a range of exclusive brand outlets (EBO; 55 owned and 260 franchisee), multiple brand outlets (MBO; 2,108), national chain stores (NCS; 740) and shop in shop (SIS; 287) spread across the country as on March 31, 2022. Its strong distribution network helps MCFL in its brand building and customer engagement. Large part of MCFL's revenue is derived from MBO and NCS channel, contributing about 55% of its revenue in FY22 (FY21: 53%) while franchisee based EBOs contributed about 27% (FY21: 31%) during the same period. The company has also increased focus on the online distribution channel, both through own website as well as channel partners like Amazon, Flipkart and Myntra. The revenue from online channel stood at Rs.62 crore in FY22 (7% of turnover) as compared to Rs.37 crore in FY21 (6% of turnover).

**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, Biaxially Oriented PolyPropylene Films (BOPPO films, renewable power, real estate, sugar and financial services. The group has been engaged in textile business since 1949. Currently, Mr. J.L. Oswal, son of Mr. Vidya Sagar Oswal is the Chairman of the group and MCFL. MCFL procures significant portion of its yarn requirement from its group company; Oswal Woollen Mills Ltd which is one of the oldest and largest manufacturers of worsted woollen yarn in North India. MCFL also purchases part of its fabric requirement from another group company; Nahar Spinning Mills Ltd. The other companies in the Nahar Group include Nahar Industrial Enterprises Limited, Nahar Capital and Financial Services Limited, Nahar Poly Films Limited (CARE A-; Positive/ CARE A2+) 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 0.23x as on March 31, 2022 as compared to 0.25x as on March 31, 2021. Further, total debt to PBILDT stood at 0.76 years in FY22 (PY: 1.20 years in FY21). During FY22, MCFL's total operating income (TOI) grew by 43% on the Covid-affected base of FY21 and recovered to pre-covid level. With jump in sales, PBILDT margin improved from 20.08% in FY21 to 22.73% in FY22. With improvement in PBILDT margin coupled with largely stable interest cost and depreciation charge, PAT margin also improved from 10.46% in FY21 to 12.61% in FY22. Increase in TOI and profitability margins led to significant growth in net profit and gross cash accruals (GCA) during FY22.

### Liquidity: Strong

Despite high working capital intensity, MCFL has strong liquidity marked by current ratio of 2.48x as on March 31, 2022 and healthy cash accruals of ₹147 crore during FY22. MACL had cash and cash equivalents of nearly ₹239 crore as on March 31, 2022. Moreover, with low overall gearing ratio, the company has sufficient gearing headroom, to raise additional debt for working capital needs.

<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

### **Key rating weaknesses**

**High seasonality of revenues along with geographical concentration and high dependence on 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 77% of total revenues in FY22. 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 131 days in FY22 (PY: 160 days). 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 98 days as on March 31, 2022 (PY: 140 days). 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 and 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 which also mandates high marketing spends to maintain market share. The industry is also sensitive to economic downturns.

**Analytical approach:** Standalone

### **Applicable criteria:**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

### **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.

<b>Brief Financials (₹ crore)</b>	<b>FY21 (A)</b>	<b>FY22 (A) *</b>	<b>Q1FY23 (UA)</b>
Total operating income	633.56	904.32	116.10
PBILDT	127.13	205.51	7.62
PAT	66.21	114.04	(3.92)
Overall gearing (times)	0.25	0.23	NA
Interest coverage (times)	9.42	13.11	2.01

A: Audited; UA: Un Audited; NA: Not available; \* Abridged audited published results on stock exchange

**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 various instruments rated for this company:** Annexure-3

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn

**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-Term Loan	LT	-	Withdrawn	-	1)CARE AA-; Stable (16-Aug-21)	-	-
2	Fund-based - LT-Cash Credit	LT	-	Withdrawn	-	1)CARE AA-; Stable (16-Aug-21)	-	-
3	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	1)Withdrawn (12-Aug-22)	1)CARE A1+ (16-Aug-21)	-	-

**Annexure-3: Complexity level of various instruments rated for this company**

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

**Annexure-4: Bank lender details for this company**

To view the lender-wise details of bank facilities please [click here](#)

**Note on 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.

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### About us:

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### Disclaimer:

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