Credo Brands Marketing Private Limited

March 08 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Remarks**
Long term Bank Facilities (Fund Based)	52.50 (Enhanced from 45.50)	**CARE A+; Stable (A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities(Non Fund Based)	10.50 (Reduced from 17.50)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**63.00 (Rs. Sixty three crore only)**		

Details of facilities/instruments in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term bank facilities of Credo Brands Marketing Private Limited (CBMPL) continue to derive strength from the business model of the company involving franchisee partners resulting in low capital intensity of operations, strong financial risk profile due to limited reliance on external debt and comfortable liquidity profile. The ratings also take cognizance of improvement in profitability while maintaining its scale of operations in 9MFY19 (refers to the period April 01 to March 31) and moderate profitability during FY18.

The ratings, however, continue to be constrained by the relatively moderate scale of operations, dependency on the single brand, elongated receivables and risks associated with the lifestyle retailing industry in the backdrop of changing consumer preferences.

The ability of the company to demonstrate healthy growth in the operations along with improvement in profitability margins going ahead, withstand increase in the competition while maintaining comfortable capital structure remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Promoter's experience in the retail lifestyle industry

Mr Kamal Khushlani, the main promoter of the company has experience of more than two decades in the retail lifestyle industry. He launched men clothing line under the brand "MUFTI-Alternate Clothing" in 1998. The promoter is supported by a team of 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 continues to spend around 16% of the sales on the promotion, advertisement and branding activity. The company sells its products through EBO (48.16% of sales in FY18), MBO (35.87% of sales in FY18), and large format stores. The company sales are mainly through EBOs and MBOs wherein majority of the stores are franchisee managed requiring low capital expenditure.

Comfortable financial risk profile and adequate liquidity position

The company continues to have a comfortable financial risk profile marked by negligible reliance on external debt, healthy cash accruals and adequate liquidity. Overall gearing level remained comfortable at 0.05x as on March 31, 2018 characterized by low dependence on working capital borrowings and vehicle loan (Rs.1.25 crore as on March 31, 2018 vis-à-vis Rs.1.55 crore as on March 31, 2017). CBMPL had adequate working capital limits tied up in order to manage the liquidity. The average utilization of fund-based working capital limits for the past 12 months ending February 2018 was low at 25%. The average utilization of non-fund-based working capital limits for the past 12 months ending December 2018 was nil. Consequently, the interest coverage remained robust at 10.20x during FY18 (17.01x in FY17).

Key Rating Weaknesses

Muted sales growth along with deterioration in profitability margins during FY18; albeit improvement during 9MFY18

The sales of the company declined from Rs. 370.75 in FY17 to Rs. 358.46 in FY18 mainly on account of the disruptions caused by GST. PBILDT deteriorated to Rs.38.63 crore during FY18 from Rs.52.93 crore in FY17. The PBILDT margins (10.27% in FY18 vis-à-vis 14.28% in FY17) and PAT margins (3.76% in FY18 vis-à-vis 6.49% in FY17) also deteriorated mainly on account of intense competition and increased tax rate for the industry from 5% to 12% in accordance with the applicable

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

GST. However, in 9MFY19 (refers to the period April 2018-December 2018), the PBILDT margins have improved on account of increased sales volume.

Long working capital cycle
Operating cycle of the company stretched to 172 days in FY18 from 167 days in FY17 with finished goods holding level. With disruptions in the form of introduction of GST, relatively liberal collection policy was followed by way of high credit period to customers due to slow market conditions which led to an increase in collection period. Credit period from supplier was maintained at 16 days.

Highly competitive nature of the branded apparel segment: The Indian apparel industry is highly fragmented in nature and the unorganized sector accounts for more than half 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.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning outlook to credit ratings
CARE's policy on default recognition
Criteria for short-term instruments
Financial Ratios: Non Financial Sectors
Rating methodology: Retail Companies

About the Company
Credo Brands Marketing Private Limited (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 Mr. 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 Exclusive Brand Outlets (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) as tabulated below.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	370.75	358.46
PBILDT	52.93	38.63
PAT	24.06	13.46
Overall gearing (times)	0.07	0.05
Interest coverage (times)	17.01	10.30

Status of non-cooperation with previous CRA: Not Applicable
Rating History (Last three years): Please refer Annexure-2
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.*

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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-Cash Credit	-	-	-	52.50	CARE A+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	10.50	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	52.50	CARE A+; Stable	1)CARE A+; Stable (06-Apr-18)	1)CARE AA-; Stable (11-Apr-17)	-	1)CARE AA- (16-Mar-16)
2.	Non-fund-based - ST-Letter of credit	ST	10.50	CARE A1+	1)CARE A1+ (06-Apr-18)	1)CARE A1+ (11-Apr-17)	-	1)CARE A1+ (16-Mar-16)

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