Credo Brands Marketing Private Limited

March 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities-Fund Based	22.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long term Bank Facilities-Fund Based	52.50	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	10.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	85.00 (Rs. Eighty Five crore only)		

Details of instruments/facilities in Annexure-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 experience of promoters, improvement in operating performance during FY19(April 01 to March 31), established brand name 'Mufti', widespread distribution network with focus on asset light business model with comfortable overall gearing. The ratings are however tempered by a long operating cycle, relatively small size of operations under a single brand & increasing competition from e-commerce.

<u>Rating Sensitivities</u>

Positive Factors

- Increase in scale of operations above Rs.600 crore with PBILDT margins above 11.00% on a consistent basis

Negative Factors

- Increase in working capital intensity with gross current assets above 250 days on sustained basis
- Increase in overall gearing above 1.00x on sustained basis

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 14-15% of the sales on the promotion, advertisement and branding activity. The company sells its products through EBO (48.49% of sales in FY19), MBO (33.22% of sales in FY19), and large format stores(4.21% in FY19). 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

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 0.17x as on March 31, 2019 characterized by low dependence on working capital borrowings 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 January 2020 was low at 39.54%. 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 10.07x during FY19 (10.20x in FY18).

Arrangement with suppliers

Credo continues to outsource the manufacturing of the garments to the known players such as Grace Creation, Garden City Fashions Pvt. Ltd, Best Sellers Apparels Pvt Ltd, Nehal Trading & Vaishnavi Global Pvt. Ltd. The design for the fabric is also

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

finalized by the company. This enables the company to have a control over the quality of fabric and enjoy the benefits of bulk buying.

Key Rating Weaknesses

Long operating cycle

The company's operating cycle is at 163 days during FY19 vis-à-vis 172 days during FY18, on the back of improvement in collection period from 134 days during FY18 to 109 days during FY19. 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. Further, the average collection period is high as payments from EBOS's and LFS are received post-secondary sales.

Relatively small size of operations and operating with a single brand

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.

Highly competitive nature of the 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.

Further, the lifestyle retailing will also continue to be vulnerable to changing fashion trend and macroeconomic outlook.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company's current ratio stands at 3.25x as on March 31st 2019. The company's working capital limits are utilised at around 40% for past 12 months ended January 2020. The company's store capex requirement for FY20 and FY21 are expected to be met through mix of debt and internal accruals.

Analytical approach: Standalone

Applicable Criteria

Financials Ratio-Non Financial Sector
CARE's Policy on Default Recognition
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's methodology for Short-term instruments
Rating Methodology - Organized 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. The company has 304 stores as on December 31, 2019 vis-à-vis 282 stores as on December 31, 2018

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	358.46	395.53
PBILDT	38.63	39.80
PAT	13.46	17.16
Overall gearing (times)	0.05	0.17
Interest coverage (times)	10.30	10.07

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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+
Fund-based - LT-Term Loan	-	-	2025	22.00	CARE A+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	52.50	CARE A+; Stable	-	1)CARE A+; Stable (08-Mar-19) 2)CARE A+; Stable (06-Apr-18)	1)CARE AA-; Stable (11-Apr-17)	-
2.	Non-fund-based - ST-Letter of credit	ST	10.50	CARE A1+	-	1)CARE A1+ (08-Mar-19) 2)CARE A1+ (06-Apr-18)	1)CARE A1+ (11-Apr-17)	-
3.	Fund-based - LT-Term Loan	LT	22.00	CARE A+; Stable	-	-	-	-

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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