Credo Brands Marketing Private Limited
April 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long term Bank Facilities (Fund Based)	45.50 (Enhanced from 37.50)	**CARE A+; Stable (A Plus; Outlook: Stable)**	**Revised from CARE AA-;Stable (Double A Minus; Outlook:Stable)**
Short term Bank Facilities(Non Fund Based)	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 revision in rating assigned to the long term bank facilities of Credo Brands Marketing Pvt. Ltd. (CBMPL) takeS into account muted sales growth coupled with declining operating margins in FY17 (A) and 9MFY18 (refers to the period from April 2017 to December 2017) on account of increase in competitive pressure following demonetization and GST.

The company continues to derive strength from business model involving franchisee partners resulting in low capital intensity of operations, strong financial risk profile due to limited reliance on debt and comfortable liquidity profile.

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 (46% of sales in FY17), MBO (35% of sales in FY16) 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 strong at 0.07x as on March 31, 2017 (0.05x as on March 31, 2016) along with low dependence on working capital borrowings. The average utilization of fund-based working capital limits

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

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 January 2017 was nil. Consequently, the interest coverage remained robust at 17.01x (26.35x in FY16).

Key Rating Weaknesses

Muted sales growth along with deterioration in profitability margins during Fy17 and 9MFY18

The sales of the company remain muted during FY17 and 9MFY18. PBILDT came down to Rs.52.93 crore during FY17 from Rs.74 crore in FY16. The PBILDT margins (14.28% in FY17 vis-à-vis 19.68% in FY16) and PAT margins (6.49% in FY17 vis-à-vis 10.49% in FY16) deteriorated further to 10.20% and 4.53% in 9MFY18 as the company has not increased the pricing of its products with increase in tax rate for the industry from 5% to 12% in accordance with the applicable GST.

Long working capital cycle

Operating cycle of the company stretched to 167 days in FY17 from 145 days in FY16 with finished goods holding level. With disruptions in the form of demonetization and 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 15 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 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.

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. The company has 263 stores as on December 31, 2017 as against 252 stores as on December 31, 2016.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	371.70	370.75
PBILDT	72.80	52.93
PAT	39.09	24.06
Overall gearing (times)	0.05	0.07
Interest coverage (times)	26.35	17.01

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	45.50	CARE A+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	17.50	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	45.50	CARE A+; Stable	-	1)CARE AA-; Stable (11-Apr-17)	-	1)CARE AA- (16-Mar-16)
2.	Non-fund-based - ST-Letter of credit	ST	17.50	CARE A1+	-	1)CARE A1+ (11-Apr-17)	-	1)CARE A1+ (16-Mar-16)

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