Credo Brands Marketing Pvt. Ltd

April 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Fund-based)	37.50 (increased from 23)	**CARE AA-;Stable (Double A Minus; Outlook:Stable)**	Reaffirmed
Short-term Bank Facilities (Non-fund-based)	25.50 (reduced from 40)	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**63 (Rupees Sixty three crore only)**		

Details of facilities/instruments in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Credo Brands Marketing Pvt. Ltd. (CBMPL) continue to derive strength from CBMPL's well-established brand 'MUFTI', business model involving franchisee partners resulting in low capital intensity of operations, healthy operational performance exhibited by the company over the years and strong financial risk profile marked by 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 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, withstand increase in the competition within the branded apparels segment 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, however, moderate scale of operations and cyclic nature of growth: The brand 'Mufti' is targeted towards the youth in the premium segment within the men's casual wear category viz. Shirts (45-50% of sales), Jeans/ Trousers (35-40% of sales) and T-shirts. The company enjoys the established brand name in the domestic market. Thus, despite the high competition within the branded apparels segment CBMPL has managed to grow over the last three years. Sales of the company witnessed growth of 12% in FY16 (as compared with a 5% y-o-y in FY15 [refers to the period April 1 to March 31]).

Franchisee based business model: The company sells its products through EBO (48% of sales in FY16), MBO (37% of sales in FY16) and large format stores. The company sales are mainly through EBOs and MBOs wherein 80% of the stores are franchisee managed requiring low capital expenditure.

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

Comfortable financial risk profile and adequate liquidity position: The company continues to have a comfortable financial risk profile marked by low reliance on external debt, healthy cash accruals and adequate liquidity. Overall gearing level remained strong at 0.05x as on March 31, 2016 due to higher profits generation and subsequent retention and low dependence on working capital borrowings. The average utilization of fund-based working capital limits for the past 12 months ending January 2017 was low at 9.32%. The average utilization of non-fund-based working capital limits for the past 12 months ending January 2017 was nil. Consequently, the interest coverage continued to remain robust at 26.35x (22.36x in FY15).

Key Rating Weaknesses

Long working capital cycle: Operating cycle of the company stretched to 145 days in FY16 from 135 days in FY15 with increase in credit period extended to retailers and finished goods holding level of two months. With growth in operations, relatively liberal collection policy for new stores in new geographies led to an increase in collection period. Credit period from supplier was maintained at 15 days in FY16, the company takes substantial portion of merchandise on cash to take benefit of discounts.

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 70% 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 Sector
Rating methodology: Retail Companies

About the Company

CBMPL incorporated in 1999, is engaged in the marketing of men's fashion garments targeted towards youth in the lifestyle category under the brand name of "MUFTI – Alternate Clothing". CBMPL is promoted by Mr Kamal Khushlani, 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 the various stores across India. As on December 31, 2016, the company had presence through 252 Exclusive Brand Outlets (EBOs), 1000+ Multi Brand Outlets (MBOs) and 105+ Large Format Stores (LFS) across India.

The company reported a PAT of Rs.39.09 crore on a total income of Rs.371.10 crore during FY16 (refers to the period April 1 to March 31) as compared with a PAT of Rs.36.93 crore on a total income of Rs.333.07 crore during FY15. In 9MFY17, the company reported a PAT of Rs.15.44 crore on a total income of Rs.235.37 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for 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.*

Analyst Contact:
Name: Mr Arunava Paul
Tel: 6754 3667
Mobile: +91 9820904584
Email: arunava.paul@careratings.com

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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	-	-	-	37.50	CARE AA-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	25.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	37.50	CARE AA-; Stable	-	-	1)CARE AA- (16-Mar-16)	1)CARE AA- (24-Mar-15) 2)CARE A+ (02-Apr-14)
2.	Non-fund-based - ST-Letter of credit	ST	25.50	CARE A1+	-	-	1)CARE A1+ (16-Mar-16)	1)CARE A1+ (24-Mar-15) 2)CARE A1 (02-Apr-14)

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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