

Hasbro Clothing Private Limited

June 29, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	30	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Assigned
Short-term Bank Facilities	10	CARE A3+ [A Three Plus]	Assigned
Total Facilities	40 (Rupees Forty crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hasbro Clothing Private Limited (HCPL) draw strength from the long-standing experience of the promoters, established brand of 'Basics Life' in the ready-made menswear market in South India and moderate financial risk profile.

The ratings strengths are constrained by HCPL's moderate scale of operations, geographical concentration of income, working capital intensive nature of operations and presence of intense competition in the industry.

Going forward, ability of the company to increase its scale of operations by expanding its brand and geographical presence and improve its profit margins while efficiently managing its working capital requirements would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing experience of promoters: Mr Mohamed Hanif, the company's Managing Director, has more than three decades of experience in the ready-made garment (RMG) business. He manages the design and finance functions of the company while his brother, Mr Suhail Sattar, manages sales and marketing. They are assisted by a professional team for managing the day-to-day operations of the company.

Established brand in the ready-made menswear market in South India: The company has three established brands under which it sells ready-made menswear and accessories with each brand catering to a different product/market segment. Genesis offers formal shirts, trousers and other accessories while garments for casual wear are sold under Basics 029 brand. The third brand, Probase targets the young adult age group. HCPL utilizes all channels of distribution viz EBO (exclusive brand outlets), MBO (multi-brand outlets), LFO (large format outlets) and e-commerce (own portal and third-party portals) for sale of its products. The company has 123 stores (own – 74 and franchise – 49) with presence in around 73 cities and towns. The brand is available across more than 1,000 counters across South India.

Moderate financial risk profile: HCPL's financial risk profile is marked by growing sales, moderate profit margins, comfortable capital structure and debt coverage metrics. The company has reported 13.21% CAGR in total operating income (TOI) over the past five years ended FY18 (refers to the period April 1 to March 31). On the capital structure front, HCPL's debt profile comprises of only working capital facility and loans from promoters. Debt coverage indicators were also moderate with interest coverage ratio and total debt to gross cash accrual (TDGCA) at 5.92x and 2.92 years respectively in FY18.

Key Rating Weaknesses

Moderate scale of operations and geographical concentration of income: HCPL's scale of operations continues to be moderate with a major portion (around 90%) of its income coming from South India. Further, income from Tamil Nadu and Kerala alone contributes 50-55% of the company's TOI. HCPL has planned to enter the North and West Indian market largely through the LFO channel to increase its brand presence and to diversify its income stream.

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

Working capital intensive nature of operations with seasonality in sales: HCPL's business is working capital intensive mainly on account of requirement to maintain high level of finished goods and for funding its receivables. Further, the company's sales are also seasonal in nature. HCPL utilizes letter of credit facility for import of winter wear and jackets from China and for other working capital requirements utilizes its cash credit facility. The average working capital utilisation for the past 12 months ended March 2018 was 83%.

Intense competition from national and international brands: The Indian apparel industry is transforming rapidly and is witnessing a shift from unorganised to organised retail. The transformation is mainly due to increase in income, increased penetration of branded wear and awareness of fashion trends among consumers. Further, rise of e-commerce with ease of digital transactions has also contributed to the increased competition in the sector.

Analytical approach:

Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for short term instruments](#)

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

[CARE's methodology for organized retail companies](#)

About the Company

HCPL, incorporated in 2004, is the entrepreneurial venture of two brothers, Mr Mohamed Hanif and Mr Suhail Sattar. The company sells ready-made menswear and accessories under its own brand 'Basics Life'

Brief Financials (Rs. crore)	FY17 (A)	FY18 (P)
Total operating income	174.33	217.19
PBILDT	16.06	20.56
PAT	6.61	9.96
Overall gearing (times)	0.61	0.59
Interest coverage (times)	4.97	5.92

A: Audited; P: Provisional

Status of non-cooperation with previous CRA:

CRISIL has conducted the review on the basis of best available information and has classified the company as "Non cooperating" vide its press release dated June 12, 2018.

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.

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About CARE Ratings:

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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	-	-	-	30.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A3+

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	30.00	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A3+	-	-	-	-

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CIN - L67190MH1993PLC071691