

Momai Apparels Ltd.

November 23, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	32.50	CARE C (SO) (Single C (Structured Obligation))*	Revised from CARE B (SO); Stable (Single B (Structured Obligation) ; Outlook: Stable)
Total	32.50 (Rupees Thirty Two Crore and Fifty Lakhs only)		

Details of instruments/facilities in Annexure-1

* Backed by the unconditional and irrevocable corporate guarantee from Ashapura Intimates Fashions Limited (AIFL) to the lenders of Momai Apparels Limited (MAL) for repayment of debt obligations of MAL.

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Momai Apparels Limited (MAL) factors in credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Ashapura Intimates Fashion Limited (AIFL) to the lenders of MAL for repayment of the obligation on the bank facilities. In the event of default by MAL, the guarantor (AIFL) will repay the dues to the lender on demand.

The revision in the rating assigned to the bank facilities of Ashapura Intimates Fashion Limited (AIFL) considers delays in debt servicing of newly availed working capital facilities from other lender (*not rated by CARE*). The rating action also considers the significant deterioration in the financial performance and liquidity position of AIFL in quarter and half year ended September 2018 (H1FY19). CARE also notes the qualified opinion of auditors in H1FY19 limited review report regarding the uncertainty of the company being a going concern and the slow realization of its debtors.

Other rating challenges include continuing sharp decline in the share price of the company and leveraging of equity stake by the promoter by way of pledge of equity stake and invocation of pledge by some of the financiers with whom promoters pledged shares. Other rating weaknesses are stretched working capital cycle coupled with high utilization of working capital limits; inherent industry risk marked by increasing competition and vulnerability to changes in fashion trends.

Detailed description of the key rating drivers
Key Rating Weaknesses
Deterioration in the liquidity position

AIFL's liquidity position has deteriorated significantly in recent time with slow recovery of its debtors. The borrowings have also increased on account of the newly availed working capital facilities in recent months for store expansion. The working capital limits also have been fully utilized and hence provide no liquidity cushion.

Weakening in credit profile due to delay in deleveraging

During FY18 the company had earned significant extraordinary income of Rs.40.69 crore by sales of treasury stock held by AIFL and the management had proposed to prepay their entire long term loans by the end of FY18. Further the company had also planned to reduce their working capital debt in a phased manner. Delay in the above plan had weakened the credit profile of the company significantly.

Working capital intensive nature of operations

The operations are highly working capital intensive due to high debtor and inventory holding. The working capital cycle has further deteriorated to 236 days in FY18 as compared to 164 days in FY17. The debtors have significantly increased from Rs.141 crore as on March 31, 2018 to Rs.247 crore as on September 30, 2018.

Inherent industry risk marked by increasing competition

The intimate garment industry in India is characterized by a high degree of fragmentation with majority of the market controlled by the unbranded and unorganized regional players and the balance by a few large organized and branded players. A major share of the lingerie market is held by the mid-market and economy segments, in terms of both value and volume. The super-premium and premium segments are relatively smaller, but fast-growing segments. In the present scenario, the premium and super premium segments of the lingerie industry are advancing following a consumer shift from economy and mid-market segment to the premium segment.

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

Vulnerability to changes in fashion trends

The branded lounge wear/ night wear segment is driven by fashion trends and its target segment's aspirations. Therefore, their association with brands may change. Thus, manufacturers need to constantly innovate and adapt to the changing preferences of the target segment. AIFL, with its team of in-house designers who work on the upcoming season's collections, is expected to have the ability to adapt to the changing market trends.

Key Rating Strengths

Established brand position

Over the years of its presence, AIFL has been able to successfully establish various brands viz. Valentine, N-Line, Night & Day, Valentine Sports, Valentine Secret Skin and Valentine Pink brands; targeted for mid-income group segment. AIFL has a strong distribution network with one hundred and fifteen distributors, ten carrying and forwarding agents and about ten thousand point of sales. AIFL also has a diverse product portfolio catering to different segments, thereby diversifying its revenue stream.

Analytical approach: Standalone including the merged subsidiary Momai Apparels Ltd.

Applicable Criteria

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

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

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

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the company (MAL)

MAL [erstwhile Momai Apparels Private Limited (MAPL)] is engaged in the business of manufacturing lounge wear, comfort wear and intimate wear primarily for AIFL. MAL belongs to Ashapura group which has been promoted by Mr Harshad Thakkar and his family.

About the Company (Guarantor)

Incorporated in 2006, Ashapura Intimates Fashion Limited is engaged in the business of designing, branding, marketing and retailing of intimate garments under established brands (viz. Valentine, N-Line, Night & Day, Valentine Sports etc) and undertakes sales through organized retail chains and own outlets. All its products are being manufactured by its subsidiary, Momai Apparels Ltd at its manufacturing facility in Vapi, Gujarat. However MAL has been merged with the company with appointed date of April 01, 2016.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	309.03	343.53
PBILDT	49.44	58.48
PAT	21.14	62.19
Overall gearing (times)	0.76	0.42
Interest coverage (times)	3.36	3.18

A: Audited

Status of non-cooperation with previous CRA : CRISIL has put the ratings of Ashapura Intimates Fashion Limited under 'Issuer Not Cooperating' category vide press release dated January 18, 2018 due to non-receipt of requisite information.

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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****For detailed Rationale Report and subscription information, please contact us at www.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	-	-	-	32.50	CARE C (SO)

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	32.50	CARE C (SO)	1) CARE B (SO); Stable (05-Nov-18) 2) CARE BBB- (SO) (Under Credit watch with Negative Implications) (15-Oct-18)	1) CARE A (SO); Stable (17-Nov-17)	1) CARE BBB+ (SO) (05-Aug-16)	-

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