Momai Apparels limited

October 15, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Remarks**
Long-term Bank Facilities	32.50	**CARE BBB- (SO) [Triple B Minus; (Structured Obligation)] (Credit watch with negative implications)**	**Revised from CARE A (SO) [Single A (Structured Obligation)] Placed on credit watch with negative implications;**
Total	**32.50 (Rupees Thirty Two Crore and Fifty Laks only)**		

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Momai Apparels Limited (MAL) factors in the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Ashapura Intimate Fashions 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) follows developments such as absence of the principal promoter Mr. Harshad Thakkar from operations of the company, (AIFL has intimated stock exchanges of filing of missing person complaint filed with Mumbai Police); sharp decline in the share price of the company in the recent past; delay in deleveraging of balance sheet as planned; and leveraging of equity stake by the promoter by way of pledge of equity stake and invocation of pledge by IIFL Securities Limited. The above developments, in CARE's opinion are likely to have debilitating effect on the credit profile of AIFL. Further the ratings have been put on credit watch with negative implication. CARE is monitoring developments with respect to above mentioned events and shall take up review of the ratings when more clarity emerges on the above issues.

The rating strengths include consistent growth in operations with healthy operating margins backed by growing brand presence and launch of new product variants. The rating also considers established position of the company in the domestic lounge wear/sleep wear segment, with recognized brands.

The rating, however, continues to be tempered by elongated 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.

The ability of AIFL to continue to increase the scale of operations and maintain its profitability amidst increasing competition along with efficient management of its working capital cycle are the key rating sensitivities. Any significant debt funded brand building capex is the key rating monitor able.

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

Detailed description of the key rating drivers of Guarantor

Key Rating Strengths

Established brand with growing presence

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 115 distributors, 10 carrying and forwarding agents and about 10,000 pont of sales. AIFL also has a diverse product portfolio (loungewear, bridal night wear, honeymoon sets, bathrobes, nighties, maternity feeding nighties, lingerie and others) catering to different segments (women, men, teenagers, kids and toddlers), thereby diversifying its revenue stream.

Consistent growth in scale of operations along with healthy operating margin

AIFL managed to increase its scale of operations in the past few years in an industry exposed to significant competition from both organized and unorganized players. The total operating income further grew by 11% in FY18 on a y-o-y basis. The growth in total operating income is attributable to increased brand presence, increase in presence at retail outlets, introduction of new brands and variants, thereby leading to improved realization and pick up in volumes over last few years. the operating margin have been consistent at around 15-17% for the past few years.

Key Rating Weaknesses

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 utilization of working capital limits remained high at 80% for the past 12 months ending September 2018 and provides no major liquidity back-up.

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.

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.

Analytical approach: The rating assigned to the bank facilities of Momai Apparels Limited (MAL) factors in the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Ashapura Intimate Fashions 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.

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.

Brief Financials (Rs. crore) (MAL)	FY16 (A)	FY17 (A)
Total operating income	138.49	141.81
PBILDT	11.30	14.38
PAT	3.12	4.30
Overall gearing (times)	0.78	0.77
Interest coverage (times)	1.98	2.16

About the Company (Guarantor)

Incorporated in 2006, Ashapura Intimates Fashion Limited [AIFL, erstwhile Ashapura Apparels Private Limited] is engaged in the business of designing, branding, marketing and retailing of intimate garments (such as loungewear, slips bathrobes, honeymoon sets, bridal night wear, nighties, ladies inner-wear, leggings, sports wear, kids wear and others) under established brands (viz. Valentine, N-Line, Night & Day, Valentine Sports and others) through a well developed & wide distribution network and undertakes sales through organized retail chains and own outlets.

The EBO's work on three business models namely, COCO (Company Owned and Company Operated), FOFO (Franchisee Owned and Franchise Operated) and COFO(Company Owned and Franchise Operated). The company also has DODO (Distributor Owned and Distributor Operated) which forms a part of FOFO model.
The AIFL's products are manufactured at MAL's manufacturing set up or out sourced to others depending on the design of the product.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	252.77	312.32
PBILDT	38.13	48.04
PAT	15.50	20.30
Overall gearing (times)	0.62	0.74
Interest coverage (times)	3.28	3.38

A: Audited
Status of non-cooperation with previous CRA: NA

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**

About CARE Ratings:

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	-	-	-	32.50	CARE BBB- (SO) (Under Credit watch with Negative Implications)

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 BBB- (SO) (Under Credit watch with Negative Implications)	-	1)CARE A (SO); Stable (17-Nov-17)	1)CARE BBB+ (SO) (05-Aug-16)	-

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