October 18, 2017

Monte Carlo Fashions Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term fund-based	92.94 (reduced from 136.89)	[ICRA]AA- (Stable); Reaffirmed
Long-term non-fund based	2.40	[ICRA]AA- (Stable); Reaffirmed
Long-term unallocated	187.06 (increased from 143.11)	[ICRA]AA- (Stable); Reaffirmed
Short-term non-fund based	17.60	[ICRA]A1+; Reaffirmed
Total Bank Facilities	**300.00**	
Commercial Paper Programme[1]	**100.00**	**[ICRA]A1+; Reaffirmed**

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term and short-term ratings of [ICRA]AA- (pronounced ICRA double A minus)[2] and [ICRA]A1+ (pronounced ICRA A one plus) respectively for the Rs. 300.00-crore[3] bank facilities of Monte Carlo Fashions Limited (MCFL). The outlook on the long-term rating continues to be Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 100.00-crore commercial paper programme of MCFL.

Rationale

The ratings continue to derive strength from MCFL's strong market position in the winter-wear segment with an established brand (Monte Carlo) and multi-channel distribution network of exclusive brand outlets, multi-brand outlets and large format stores across more than 700 cities in the country. Further, the ratings are supported by MCFL's robust financial profile characterized by strong capital base, negative net-debt position during most part of the year and strong debt coverage indicators (estimated Debt Service Coverage Ratio [DSCR] of 3.5x and Total Debt/Operating profit before depreciation, interest, tax and amortization [OPBDITA] of 0.5x in FY2018). The strong financial profile helped the company withstand performance pressures witnessed in FY2017 owing to demonetization-led demand disruption during the peak season of winter-wear sales. Notwithstanding the temporary performance pressures, ICRA notes that long-term growth prospects for the branded apparel industry remain healthy, given the low penetration of the organised retail market and favourable demographic profile in the country. Moreover, ICRA notes that MCFL benefits from operational and financial flexibility by virtue of being a part of the Ludhiana (Punjab)-based Nahar Group, which is one of the largest textile groups in the country with vertically integrated operations from spinning to garmenting.

The ratings are, however, constrained by concentration risks arising from high dependence on winter-wear segment under single brand, which in-turn drives seasonality in sales, limits geographic

[1] The rating of Rs. 100.00-crore CP programmes is based on the condition that total borrowings by way of sanctioned working capital facilities from the banks and commercial paper will remain within a total of below mentioned items:

a) Lower of sanctioned working capital limits / Maximum Permissible Banking Finance

b) Unencumbered cash balances/ bank deposit/ liquid mutual funds (investment such as equity, Fixed Maturity Plans are excluded within the definition of liquid mutual fund)

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

[3] 100 lakh = 1 crore = 10 million

diversification, and makes sales vulnerable to weather conditions. ICRA notes that the third quarter of the financial year continues to account for more than ~50% of MCFL's revenues and profits. Also, most (~90%) of MCFL's stores and sales continue to remain concentrated in northern, central and eastern regions.

In addition, seasonality in business also results in high working capital requirements during the peak season (peak NWC/OI of ~70%) due to high levels of apparel inventory and credit sales to the distribution channel partners. Nonetheless, ratings continue to draw comfort from the outright sale model for most of the sales with limited provision for sales return, which partially mitigates the risk of obsolete inventory due to unsold stock.

Notwithstanding the established position of MCFL in the winter wear segment, it faces strong competition in the summer-wear segment from a number of established brands operating in the country. As a result, its ability to strengthen its presence in the summer-wear segment remains critical for long-term growth, geographical diversification and minimising seasonality in business; and thus will remain a key rating sensitivity besides its ability to minimise non-moving stock and receivables from the previous season on a consistent basis to control the working capital. Any large debt funded capital expenditure or acquisition impacting the capital structure and/or liquidity will also be a rating sensitivity.

Key rating drivers

Credit strengths

- **Strong market position in the winter-wear segment with an established brand ('Monte Carlo') and multi-channel distribution network –** MCFL manufactures and retails winter and summer wear apparels in the domestic market under its brand 'Monte Carlo', which is an established brand, particularly in the winter-wear segment. The company enjoys a pan-India, multi-channel distribution network of 230 exclusive brand outlets (EBOs), ~2,300 multi-brand outlets (MBOs) and 204 large-format/national chain store outlets, across more than 700 cities in the country.
- **Robust financial profile characterized by strong capital base, negative net-debt position during most part of the year and strong debt coverage indicators -** MCFL's dependence on external borrowings has remained low on account of its strong capital base and healthy accruals which have been sufficient to meet most of its funding requirement, as also reflected in low leverage (Total Debt/Tangible Net Worth [TNW] of ~0.13x as on March 31, 2017). Further, the company continues to maintain sizeable liquid investments (Rs. 149 crore as on March 31, 2017) which are larger than the average borrowing level of the company during the year, resulting in negative net debt position. Low leverage coupled with limited debt repayments and healthy profitability is expected to continue to result in strong debt metrics (expected DSCR of 3.5x and Total Debt/OPBDITA of 0.5x in FY2018)
- **Healthy growth prospects for the branded apparel industry -** Growth prospects for the branded apparel industry remain healthy, given the low penetration of the organised retail market in India and favourable demographic profile.
- **Operational and financial flexibility by virtue of being a part of the Nahar Group -** MCFL is a part of the Ludhiana-based Nahar Group, which is one of the largest and oldest textile groups in the country with vertically-integrated operations from spinning to garmenting and retailing. The other group companies present in the textile industry are Oswal Woollen Mills Ltd. (rated [ICRA]A+ (Stable)/[ICRA]A1+), Nahar Industrial Enterprises Limited (rated [ICRA]A (Stable)/[ICRA]A1), and Nahar Spinning Mills Ltd.

Credit weaknesses

- **Concentration risks–** While MCFL has expanded its product portfolio over the years to offer complete range of winter and summer wear apparels; it however continues to have high dependence upon winter-wear segment. Resultantly, MCFL's sales remain vulnerable to weather conditions, with more than ~50% of its revenues getting generated in the third quarter of the financial year. Higher third quarter sales and consequently higher inventory requirements during second quarter and receivables in third quarter, result in high working capital requirements, especially during months of October and November. Moreover, due to tropical climate in the western and southern regions, the winter wear market is limited and consequently the company has limited presence in these geographies.
- **High working capital intensity with NWC/OI of about 70% during the peak season-** MCFL's business is working capital intensive due to the high levels of apparel inventory and credit sales to the distribution channel partners. The apparel inventory level is high on account of stocking of apparels before the season to meet the requirement of the existing stores and the new stores which are opened during the season. The company's ability to minimise non-moving stock and receivables from the previous season on a consistent basis will remain critical to control the working capital and keep inventory write-down risk low.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

– Corporate Credit Rating Methodology
– Rating Methodology for Indian Textiles Industry– Apparels

About the company:

MCFL is a Ludhiana-based manufacturer and retailer of apparels under the 'Monte Carlo' brand, which is an established brand in the domestic apparel market, particularly in the woolen-wear segment. MCFL retails the apparels through an established multi-channel distribution network of exclusive stores (230 stores as on June 30, 2017), multi-brand outlets (~2,300 stores as on June 30, 2017), and national chain store outlets (204 stores as on June 2017) in India.
MCFL is part of the Ludhiana-based Nahar Group, which is one of the largest and oldest textile groups in the country with vertically integrated operations from spinning to garmenting and retailing. The other major group companies are Oswal Woollen Mills Ltd. (OWML), Nahar Industrial Enterprises Ltd. and Nahar Spinning Mills Ltd.

MCFL was incorporated in July 2008 as a wholly owned subsidiary of OWML. Pursuant to the scheme of arrangement and demerger with OWML, the apparel business of OWML, comprising manufacturing facilities, sales distribution network and ownership of the 'Monte Carlo' brand were transferred to MCFL with effect from April 1, 2011. Thereafter, MCFL ceased to be a subsidiary of OWML. 'Monte Carlo' brand was originally launched by OWML in 1984 as an exclusive woolen brand. Over the years, the product portfolio under the brand has been diversified to include summer wear as well.

Key financial indicators (Audited)

	FY2016	FY2017^	Q1FY2018^^
Operating Income (Rs. crore)	622.4	584.4	66.3
PAT (Rs. crore)	58.1	42.8	5.2
OPBDITA/ OI (%)	19.6%	13.4%	12.7%
RoCE (%)	19.5%	13.7%	NA
Total Debt/ TNW (times)	0.2	0.1	NA
Total Debt/ OPBDIT (times)	0.8	0.8	NA
Interest Coverage (times)	7.5	6.5	4.9
NWC/ OI (%)	43.6%	42.6%	NA

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in Progress); NWC: Net Working Capital
^MCFL's performance in FY2017 was impacted as the demonetisation drive coincided with the peak season for winter-wear sales, thereby disrupting sales
^^MCFL's revenues are characterised by high seasonality. First and fourth quarters of the financial year together account for only 20-25% of the annual revenues

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years:
Table:

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016			Date & Rating in FY2015
				Oct 2017	Sep 2016	Nov 2015	Aug 2015	May 2015	Dec 2014
1	Long-term fund-based	Long-term	92.94	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Long-term non-fund based	Long-term	2.40	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Long-term unallocated	Long-term	187.06	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Short-term non-fund based	Short-term	17.60	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper Programme	Short-term	100.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating
-	Term loan	-	-	March 2024	17.94	[ICRA]AA- (Stable)
-	Cash credit	-	-	-	75.00	
-	Bank guarantee	-	-	-	2.40	
-	Unallocated	-	-	-	187.06	
-	Letter of credit	-	-	-	17.60	[ICRA]A1+
-	Commercial paper	-	-	-	100.00	

Source: MCFL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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