Monte Carlo Fashions Limited

May 17, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	92.94	91.00	[ICRA]AA- (Stable); reaffirmed
Short-term Non-fund-based	17.60	30.00	[ICRA]A1+; reaffirmed
Short-term Fund-based	-	50.00	[ICRA]A1+; reaffirmed
Long-term Unallocated	187.06	29.00	[ICRA]AA- (Stable); reaffirmed
Long-term/Short-term Interchangeable	-	(10.00)	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Long-term Non-fund-based	2.40	-	-
Total Bank Facilities	**300.00**	**200.00**	
Commercial Paper Programme[1]	**100.00**	**100.00**	[ICRA]A1+; outstanding

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term and short-term ratings for the Rs. 200.0-crore[2] (reduced from Rs. 300.0 crore) bank facilities of Monte Carlo Fashions Limited (MCFL)[3] at [ICRA]AA- (pronounced ICRA double A minus) and [ICRA]A1+ (pronounced ICRA A one plus) respectively. The outlook on the long-term rating is 'Stable'. ICRA also has an [ICRA]A1+ rating outstanding for the Rs. 100.0-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 and strong debt coverage indicators (estimated Total Debt/Operating profit before depreciation, interest, tax and amortization [OPBDITA] of 0.5x for 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

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[1] The rating for Rs. 100.0-crore commercial paper programme 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] 100 lakh = 1 crore = 10 million

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

(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 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 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 several 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.

Outlook: Stable

ICRA believes that MCFL's strong brand presence in the domestic apparel market, along with an established multi-channel distribution network, will support steady revenue growth and healthy profitability in the medium term. This coupled with low dependence upon debt is expected to continue to support strong credit profile. It is however noted that MCFL's growth will remain vulnerable to weather conditions due to high dependence on the winter wear sales. Furthermore, notwithstanding its established position in the winter wear segment, MCFL faces strong competition in the summer wear segment from several established national and regional brands. As a result, its ability to strengthen its presence in the summer wear segment remains critical for long-term growth.

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 234 exclusive brand outlets (EBOs), ~2,500 multi-brand outlets (MBOs) and 270 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 and strong debt coverage indicators – MCFL's dependence on external borrowings has remained low because 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 (estimated Total Debt/Tangible Net Worth [TNW] of ~0.1x as on March 31, 2018). Further, the company continues to maintain sizeable liquid investments (~Rs. 135 crore as on March 31, 2018) 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 (estimated Total Debt/OPBDITA of 0.5x for 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)[4], 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 because 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 Entities in the Indian Textiles Industry – Apparels

About the company:

MCFL is a Ludhiana-based manufacturer and retailer of apparels. The company retails its products under the 'Monte Carlo' brand, which is an established brand in the domestic apparel market, particularly in the woollen-wear segment. MCFL has an established multi-channel distribution network comprising exclusive stores (234 stores as on December 31, 2017), multi-brand outlets (~2,500 stores as on December 31, 2017), and national chain store outlets (270 stores as on December 31, 2017) in India.

4 Please refer to ICRA's website – www.icra.in for further details

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 major group companies include Oswal Woollen Mills Ltd. (OWML)[5], Nahar Industrial Enterprises Ltd. (NIEL)[6] 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 woollen brand. Over the years, the product portfolio under the brand has been diversified to include summer wear as well.

Key Financial Indicators

	FY2016 (Audited)	FY2017 (Audited)	9M FY2018 (Un-Audited)
Operating Income (Rs. crore)	622.4	584.4	560.1
PAT (Rs. crore)	58.1	42.8	68.6
OPBDIT/ OI (%)	19.6%	13.4%	20.4%
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	18.7
NWC/ OI (%)	44%	43%	NA

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; ROCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital
Source: MCFL's Annual Reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[5] ICRA has [ICRA]A+(Stable) and [ICRA]A1+ ratings outstanding for OWML's bank facilities and [ICRA]A1+ rating outstanding for OWML's commercial paper programme. For detailed rationale, please refer to ICRA's website – www.icra.in

[6] ICRA has [ICRA]A (Stable) and [ICRA]A1 ratings outstanding for NIEL's bank facilities. For detailed rationale, please refer to ICRA's website – www.icra.in

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016		
					May 2018	Oct 2017	Sep 2016	Nov 2015	Aug 2015	May 2015
1	Fund-based	LT	91.0	35.0*	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund-based	ST	30.0	4.5*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based	ST	50.0	-	[ICRA]A1+	-	-	-	-	-
4	Unallocated	LT	29.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Non-fund-based	LT/ST	(10.0)^	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-
6	Non-fund-based	LT	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
7	Commercial Paper	ST	100.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**estimate for March 31, 2018*
**letter of credit facility of Rs. 30 crore has a Rs. 10 crore bank guarantee sub-limit*
Note: LT-Long-term; ST-Short-term

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	June 2014	-	March 2024	16.0	[ICRA]AA- (Stable)
NA	Cash Credit	-	-	-	75.0	[ICRA]AA- (Stable)
NA	Unallocated	-	-	-	29.0	[ICRA]AA- (Stable)
NA	Letter of Credit	-	-	-	30.0	[ICRA]A1+
NA	Bank Guarantee	-	-	-	(10.0)	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Overdraft	-	-	-	50.0	[ICRA]A1+
NA	Commercial Paper	-	-	7 to 365 days	100.0	[ICRA]A1+

Source: MCFL

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About ICRA Limited:

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