

February 22, 2021

House of Anita Dongre Private Limited: Ratings downgraded to [ICRA]BBB+(Negative)/A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term fund-based limits	10.0	10.0	Ratings downgraded to [ICRA]BBB+(Negative)/[ICRA]A2 from [ICRA]A-/Negative/A2+
Long-term/short-term unallocated	10.0	10.0	Ratings downgraded to [ICRA]BBB+(Negative)/[ICRA]A2 from [ICRA]A-/Negative/A2+
Total	20.0	20.0	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has assessed the consolidated financial risk profile of House of Anita Dongre Private Limited (HOADPL) because of the strong operational and financial linkages between HOADPL and its subsidiary, Ochre and Black Private Limited (OBPL). HOADPL has also provided a corporate guarantee for OBPL's bank loans.

The rating action factors in the company's weaker-than-expected performance in 8M FY2021 on account of the slower-than-anticipated recovery in revenue in its major metro markets across India. The impact of the Covid-19 pandemic on sales was the severest in metro markets where recovery was slow as occasion-related buying was limited due to lack of weddings and the restriction on social gatherings. Revenues were also impacted by the fear of consumers to visit public places, especially malls, due to the pandemic. Furthermore, the challenges of a weak economy translating into lower discretionary spends added to the revenue pressure. The impact was more pronounced on the luxury brand, Anita Dongre, which has the highest gross margins. Given the lower sales and lower gross margin mix, HOADPL's profitability has been adversely impacted as the fixed overhead costs remained high relative to revenue.

A turnaround in the operating performance, supported by a macro-economic recovery and increased consumer propensity to spend, and the further easing of the pandemic-related restrictions will be crucial to ramp up the revenues in FY2022 and arrest an additional deterioration in the company's credit profile and liquidity position. While HOADPL was able to negotiate favourable lease rentals in FY2021, the rentals are expected to normalise in FY2022. Hence, a pickup in sales remains key to improve the profitability. The Negative outlook reflects the uncertainty around consumer spends given the evolving medical situation and macro-economic scenario and any delayed recovery could put further pressure on the company's operating performance.

The Group's operating performance remains under pressure due to stiff competition and product-specific issues faced by the company. It faces intense competition in the women's wear market with greater penetration of various foreign brands such as Zara and H&M, and the proliferation of private labels and other national, regional and local brands, leading to price competition and a higher discounting trend in the industry.

Nevertheless, ICRA draws comfort from the Group's adequate liquidity at present with some cushion available in the form of unutilised sanctioned bank limits (Rs. 5-10 crore cushion out of the consolidated Rs. 40-crore limits). Furthermore, the company's liquidity is expected to be supported by the release of its Rs. 17.7-crore encumbered mutual funds, which are at present pledged as security – ICRA expects this to be released by the end of February 2021 and the same will be a key monitorable. ICRA also takes comfort from the stance of HOADPL's private equity investor to bring in additional funds through equity or subordinated debt, in case of a short-term funding gap.

The ratings continue to favourably factor in the Group's experienced promoter and management team, established brands and diversified presence in the women's wear segment. The Group has established brands in the mass premium category with a diversified and balanced presence across the western wear segment (through AND), the fusion wear segment (through Global Desi) and the luxury segment (through the Anita Dongre fashion label).

Key rating drivers and their description

Credit strengths

Vast experience of promoters and management team in fashion industry – The promoters have vast experience in the industry with Ms. Anita Dongre overseeing the design aspect for the Group and the other two promoters overseeing the other major functions. They are ably supported by a sound management team heading critical functions. To professionalise the company and bring in external inputs, HOADPL appointed Mr. Kavindra Mishra, who has extensive experience in the branded apparel industry, as its Chief Executive Officer in April 2019.

Established presence led by flagship brands such as AND and Global Desi – The Group has an established presence in the organised women's wear segment with its western wear brand, AND (introduced in 1999), and its fusion wear brand, Global Desi (started in 2009). Both brands have enjoyed successful runs in their respective segments. The two contribute to approximately 80% of the Group's revenues, with the balance being generated by its high-end luxury fashion labels, Anita Dongre and Grassroot. The Group will continue to benefit from the strong brand image of the above labels, supported by its thrust on marketing and advertising.

Moderate debt levels – The Group is adequately capitalised, having received a Rs. 100.0-crore equity infusion from General Atlantic in FY2014. Further, despite pressure on its profitability over the three years leading to FY2020, the company had controlled its debt by being cautious in its expansion and prudently managing its inventory levels. Post the pandemic, HOADPL has had to resort to additional borrowing to fund losses. Nevertheless, the net debt levels (~Rs. 35 crore) remain moderate.

Credit challenges

Adverse impact on revenues and operating profitability in FY2021 due to slower-than-anticipated recovery post complete lockdown in April and May 2020 – The company has a high operating leverage (fixed rentals and employee costs) and a sharp reduction in revenue results in significant pressure on its profitability. The nationwide lockdown imposed to contain the pandemic and modest sales traction thereafter led to significant pressure on sales. The impact of the pandemic on sales was the severest in metro markets where recovery was slow as occasion-related buying was limited due to lack of weddings and restrictions on social gatherings. Revenues were also impacted by the fear of consumers to visit public places, especially malls, due to the pandemic. Furthermore, the challenges of a weak economy translating into lower discretionary spends added to the revenue pressure. The impact was more pronounced on the luxury brand, Anita Dongre, which has the highest gross margins. Given the lower sales and lower gross margin mix, the profitability has been adversely impacted as the fixed overhead costs remained high relative to revenue, constraining the company's credit profile.

A turnaround in the operating performance, supported by a macro-economic recovery and increased consumer propensity to spend, and the further easing of the pandemic-related restrictions will be crucial to ramp up the revenues in FY2022 and arrest a further deterioration in the company's credit profile and liquidity position. While HOADPL was able to negotiate favourable lease rentals in FY2021, the rentals are expected to normalise in FY2022. Hence, a pickup in sales remains key to improve the profitability.

Sales vulnerable to macro-economic scenario and changing consumer preferences; working capital intensity expected to remain high – The Group's sales remain vulnerable to the macro-economic scenario, the changing tastes and preferences of consumers, which vary across regions, and fashion trends that change fast. HOADPL's inventory, a key parameter for the industry, remains susceptible to markdowns in case of a delayed demand recovery and to slower sales that could lead to higher working capital intensity. The anticipated economic recovery in the domestic gross domestic product (GDP) in FY2022 will be crucial to drive discretionary spending, support the Group's revenues and profitability, and reduce its working capital intensity.

Competition from various established global, national, regional and local brands – The Group faces stiff competition in the women's wear market from various foreign brands such as Zara and H&M, along with private labels and national, regional and

local brands. Apart from the reduction in discretionary spending by consumers, this leads to price competition and higher discounting, impacting the Group's profitability. Therefore, the company's ability to align its products with the market demand and fill the gaps in its portfolio by introducing new products will be critical to stave off competition and drive growth.

Liquidity position: Adequate

With a strict lockdown in Q1 FY2021 across major metros and the subsequent slow recovery, the company's sales were adversely impacted. Though rental costs were waived off during the lockdown period, HOADPL had to bear the employee costs during this period. This reduced the company's liquidity buffer as there was meagre or no cash flow from operations. HOADPL also availed a Rs. 20-crore term loan from its bankers, which eased its liquidity after July 2020, further aided by the recovery in revenues post the festive season in October 2020. Prudent inventory management and some stretching of supplier credit helped the company maintain an adequate buffer in its sanctioned working capital limits (Rs. 5-10 crore cushion out of the consolidated Rs. 40-crore limits) in the past few months. Furthermore, HOADPL's liquidity is expected to be supported by the release of its Rs. 17.7-crore encumbered mutual funds, which are at present pledged as security – ICRA expects this to be released by the end of February 2021 and the same will be a key monitorable. Nevertheless, the pace of recovery in demand will be crucial to ramp up the sales and the recovery in profitability and arrest the decline in the liquidity position. HOADPL's ability to manage its inventory and fixed costs will also remain important to conserve cash. ICRA continues to draw comfort from the stance of the company's private equity investor to bring in additional funds through equity or subordinated debt if the need arises.

Rating sensitivities

Positive factors – Given the Negative outlook, an upgrade in the ratings is unlikely in the near term. However, the outlook may be revised to Stable if there is a sustained recovery in the volumes and earnings and if the working capital intensity reduces, which would consequently result in an improvement in HOADPL's credit metrics and liquidity position.

Negative factors – Pressure on HOADPL's ratings could emerge in case of a delayed sales recovery due to a weakening demand environment and/or competition or any company-specific factor leading to pressure on the earnings and liquidity on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry - Apparels
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on HOADPL's consolidated financial profile

About the company

HOADPL is in the business of designing, manufacturing and retailing apparel. In July 2015, the Group was renamed as House of Anita Dongre Limited from AND Designs India Limited, and was converted into a private limited company with effect from January 02, 2020. On March 28, 2019, as a part of its corporate restructuring process, HOADPL's board transferred the businesses under its two brands, AND and Global Desi, to a newly formed wholly-owned subsidiary, Ochre and Black Private Limited. HOADPL will continue to manage the two high-end brands, Anita Dongre and Grassroot.

The HOADPL Group is present in the women's wear category with its product range spanning western wear, Indo-western wear and traditional Indian wear. The Group is present in both the mass premium and high-end luxury fashion segments. The mass premium category is represented by its flagship, AND, which is a western wear brand, and Global Desi, a fusion wear (western and ethnic wear) brand. HOADPL's couture category has two brands, Anita Dongre and Grassroot, the latter being an organic wear brand that is being scaled up. The retail channel mix consists of its own stores, both Group-owned as well as

franchisee outlets in leading malls/high streets, and large format stores such as Shoppers Stop, Pantaloons, Ethnicity and Lifestyle across tier I, II and III cities as well as emerging towns in India.

Key financial indicators (audited)

HOADPL Consolidated	FY2019	*FY2020
Operating Income (Rs. crore)	512.3	510.3
PAT (Rs. crore)	-1.4	-11.4
OPBDIT/OI (%)	5.2%	20.6%
PAT/OI (%)	-0.3%	-2.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	1.6
Total Debt/OPBDIT (times)	1.5	2.8
Interest Coverage (times)	6.7	3.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Total assets and net worth exclude revaluation reserves

Source: HOADPL, ICRA research

*As FY2020 numbers are as per IND AS 116, they are not comparable to FY2019 numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 22, 2021	July 31, 2020	May 18, 2020	Sep 27, 2019	July 29 2019	April 27 2018	June 15 2017	
1	Fund based	Long term and short term	10.0	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]A- (Negative)/A2+	[ICRA]A (Negative)/A1	[ICRA]A (Negative)/A1	[ICRA]A+ (Stable)/A1+	[ICRA]A+ (Stable)/A1+	[ICRA]A+ /A1+; Outlook revised to Stable from Positive	
2	Unallocated	Long term and short term	10.0	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]A- (Negative)/A2+	[ICRA]A(Negative)/A1	[ICRA]A(Negative)/A1	[ICRA]A+ (Stable)/A1+	[ICRA]A+ (Stable)/A1+	[ICRA]A+ /A1+; Outlook revised to Stable from Positive	

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/short-term fund-based limits	NA	NA	NA	10.0	[ICRA]BBB+(Negative)/A2
NA	Long-term/short-term unallocated	NA	NA	NA	10.0	[ICRA]BBB+(Negative)/A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	HOADPL Ownership	Consolidation Approach
House of Anita Dongre (USA) Inc.	100.00%	Full Consolidation
The Anita Dongre Foundation	100.00%	Full Consolidation
Ochre and Black Private Limited*	100.00%	Full Consolidation

Source: HOADPL annual report FY2020

*Effective from April 01, 2019

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