July 26, 2021

Cantabil Retail India Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	47.00	47.00	[ICRA]BBB+(Stable); reaffirmed
Long-term – Fund based/TL	4.00	-	-
Short-term – Non-fund based	5.00	5.00	[ICRA]A2; reaffirmed
Long-term/Short-term – Unallocated	4.00	8.00	[ICRA]BBB+(Stable)/A2; reaffirmed
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continue to favourably factor in the company's established brand presence in the value for money men's wear segment and the extensive experience of the promoters of Cantabil Retail India Limited (CRIL) in the textile retail industry. ICRA notes its expanding retail footprint, mainly across northern and western India and strong brand identity of its flagship brand 'CANTABIL'. During FY2021, CRIL added 19 outlets, comprising of 8 company owned EBOs and 11 franchisee EBOs. The ratings also draw comfort from the combination of owned and outsourced production facilities which enable CRIL to function on an asset-light model with higher flexibility. Moreover, its limited and discretionary capital expenditure plans over the medium term, strong net worth base and limited dependence on external financing have all resulted in a comfortable capital structure as indicated by low gearing and healthy coverage metrics; this is expected to remain healthy in FY2022 also.

The ratings are constrained by the high working capital intensity of the business evident from the long inventory holding period. Going forward, the company's ability to consistently minimise its seasonal carryover stock will remain critical for controlling its inventory write-down risks in the face of fast-changing fashion trends and consumer tastes. Inherent seasonality in CRIL's sales, with revenues skewed towards the second half of the year also weigh down the rating. ICRA also factors in CRIL's vulnerability to adverse market conditions, unpredictability of the ongoing Covid-19 pandemic and intense competition in the highly fragmented domestic apparel retail market. ICRA will continue to monitor the unfolding of the pandemic in India over the coming months and CRIL's response to the resultant changes in business environment.

The Stable outlook reflects ICRA's opinion that CRIL will continue to benefit from the extensive experience of its promoters, established brand, healthy financial risk profile and commitment towards conservative borrowing levels.

Key rating drivers and their description

Credit strengths

Established brand 'Cantabil' in the domestic apparel market and expanding distribution network into Tier II and III cities – The company's flagship brand 'Cantabil' has an established presence in the domestic apparel market through its wide portfolio of apparel and apparel accessories for men, ladies and children in the mid-to-high income category. This is supported by CRIL's pan-India distribution network. The company mainly retails through Exclusive Brand Outlets (EBOs) under the company-owned company-operated (COCO) and franchisee-owned franchisee-operated (FOFO) model. It also has six outright stores which CRIL has been winding down post implementation of GST and are mainly used for stock clearances. As on March 31, 2021, CRIL had a strong network of 320 exclusive brand outlets across more than 17 states in India, out of which 230 were COCO and 90 were FOFO.

Asset-light business model offers flexibility in controlling overhead costs– CRIL operates a fully integrated manufacturing facility at Bahadurgarh with annual production capacity of ~ 10 lakh pieces of apparel (~ 33% of its annual sales in FY2021). It sources the balance requirements from third-party fabricators through job work orders without any contractual obligations. Designing and product development is handled through in-house teams to control styling. This limited dependence on in-house manufacturing gives CRIL enhanced flexibility to manage its overhead costs and maintain operating margins.

Comfortable capital structure and healthy coverage metrics– CRIL's financial profile is characterized by a conservative capital structure with healthy credit metrics. As on March 31, 2021, it had no financial repayment obligations and has been relying on internal accruals to fund its capital expenditure. Its debt profile consists only of working capital lines and lease liabilities on its stores. The reported gearing stood at 1.9 times as on March 31, 2021 and 2.2 times as on March 31, 2020. However, on a lease adjusted basis, gearing was comfortable at 0.1 times as on March 31, 2021 against 0.3 times as on March 31, 2020. Reported interest cover stood 2.4 times in FY2021 against 4.1 times in FY2020. On a lease adjusted basis, interest cover improved from 6.7 times in FY2020 to 7.2 times in FY2021. Given the strong operating margins and expected recovery in revenue in FY2022, ICRA expects the interest cover to remain healthy.

Extensive experience of promoters in the apparel retail industry, supported by professional management – CRIL was originally founded in 1989 by Mr. Vijay Bansal and his family in New Delhi. The company is now managed by Mr. Vijay Bansal, his son Mr. Deepak Bansal and Mr. Basant Goyal who all have extensive experience in apparel retail industry. The top management in supported by a team of technically qualified and experienced professionals.

Credit challenges

Working capital intensive business due to high inventory holding– The apparel retail industry inherently entails high working capital requirement for stocking apparel across a wide product range. CRIL operates primarily through the EBO format where it manages its own inventory levels. This leads to considerably high inventory position in the company's books at year end on account of stocking for upcoming store launches and raw material procurement for its winter wear collection which are high value products; NWC/OI for FY2021 stood at 35%, higher than 27% in FY2020. ICRA expects CRIL to continue to have high working capital requirement due to planned store expansion in the near term.

High competition in the domestic branded apparel retail market to maintain pricing pressure- CRIL operates in the highly fragmented and competitive domestic market which is dominated by the unorganised sector. In the organised sector too, the company faces fierce competition from established global as well as national, regional and local brands. This is likely to impact margins and keep pricing pressure.

Challenging business environment due to the ongoing global pandemic; reliance on discretionary consumer spending– CRIL's business is closely linked to macro-economic conditions, consumer confidence and spending patterns due to the discretionary nature of its products. During the first wave of the pandemic in India in H1 FY2020, apparel retail industry suffered business disruptions due to stringent lockdowns imposed by the government. The second Covid-19 wave in Q1 FY2022 is also expected to have had visible impact on business performance and risks persists of future waves. ICRA takes note of the operational uncertainty in the apparel retail industry given the ongoing pandemic due to weak market conditions and potential change in consumer behaviour.

Vulnerability to changing consumer preferences and inherent seasonality in business– CRIL must constantly innovate its product offerings to match fast-changing consumer preferences and fashion trends. Further, the company's revenues have been historically skewed in favour of the second half of the year because of higher ticket size of winter wear. This results in increased risk of managing seasonal carry over stock and inventory write-offs.

Liquidity position: Adequate

CRIL's working capital utilization has remained moderate with an average utilization of 47% during the 12-month period ending March 2021 with outstanding working capital borrowings of Rs. 14.4 crore against cash and liquid investments of Rs. 9.0 crore as on March 31, 2021. The liquidity profile is also supported by healthy cushion available in its drawing power, discretionary nature of capex and no debt repayment obligations. ICRA draws comfort from the financial flexibility available to the company by way of undrawn working capital limits and free cash/bank balance to help the company maintain adequate liquidity buffer at all times.

Rating sensitivities

Positive factors – Improvement in operational performance leading to interest cover of more than 4 times and TOL/TNW of less than 1.5 times on a sustained basis.

Negative factors – Continued pressure on revenue growth and profitability due to factors including, but not limited to, the prolonged impact of the pandemic may result in a downward pressure on the ratings. Specific credit metrics to include interest cover of less than 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textile Industry - Apparels
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Cantabil Retail India Limited (CRIL) is engaged in the designing, manufacturing, branding and retailing of apparel and apparel accessories for men, ladies and children in the middle to high income segment through a pan-India network of exclusive brand outlets under the brand names 'Cantabil', 'Kaneston', 'Crozo' and 'Lil Potatoes'. As on March 31, 2021, the company operated a chain of 320 EBOs across India.

The company was originally incorporated at Kapish Sales Private Limited in February 1989 by Mr. Vijay Bansal and his family in New Delhi. Subsequently, it was renamed Cantabil Retail India Private Limited in March 2009 and was listed on the Bombay Stock Exchange and National Stock Exchange of India in October 2010. The company operates a fully integrated manufacturing facility in Bahadurgarh, Haryana with annual capacity of around 10 lakh pieces of clothing per annum.

Key financial indicators (Audited)

	FY2020	FY2021
Operating Income (Rs. crore)	338.1	251.6
PAT (Rs. crore)	16.4	9.7
OPBDIT/OI (%)	25.1%	23.6%
PAT/OI (%)	4.9%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	2.3
Total Debt/OPBDIT (times)	3.1	4.0
Interest Coverage (times)	4.1	2.4

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

The above figures are as reported by the company (post adoption of IndAS 116). As on March 31, 2021, total debt includes working capital borrowing of Rs. 14.4 crore and lease liabilities of Rs. 220.6 crore.

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 26,2021	June 01, 2020	-	-
1	Cash Credit	Long-term	47.00	14.40	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Term Loan	Long-term	-	-	-	[ICRA]BBB+ (Stable)	-	-
3	Letter of Credit	Short-term	5.00	-	[ICRA]A2	[ICRA]A2	-	-
4	Unallocated limits	Long-term/ Short-term	8.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund-based – CC	Simple
Short Term Non-fund based – LC	Simple
Long Term/Short Term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Cash Credit	-	NA	-	47.00	[ICRA]BBB+(Stable)
NA	Letter of Credit	-	NA	-	5.00	[ICRA]A2
NA	Unallocated limit	-	-	-	8.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – N.A.

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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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