January 31, 2024

House of Anita Dongre Private Limited: Ratings downgraded to [ICRA]BBB (Negative)/ [ICRA]A3+; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term Fund-based – Working Capital Facilities	10.00	10.00	**[ICRA]BBB (Negative)/ [ICRA]A3+;** downgraded from [ICRA]BBB+ (Stable)/ [ICRA]A2; outlook revised to Negative from Stable
Long-term/short-term – Unallocated Limits	10.00	10.00	
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of House of Anita Dongre Private Limited (HOADPL), which includes its subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages among them. HOADPL has also extended corporate guarantee towards the bank facilities availed by Ochre and Black Private Limited (OBPL).

The ratings downgrade and revision in the outlook on the long-term rating to Negative from Stable factors in the deterioration in the Group's performance in H1 FY2024 and continued uncertainty over recovery in revenue and earnings in the coming quarters due to weak demand growth outlook and reduction in the Group's scale of operations. After a brief period of post-pandemic recovery in operations in FY2023, the Group's revenue declined by ~15% YoY in H1 FY2024 to ~Rs. 250 crore and its operating profit margin contracted by ~320 bps YoY to ~16% during the same period. Post a rejig in the top management in March 2023, the Group's promoters implemented a new strategy amid industry-wide demand headwinds. The Group closed 236 under-performing retail locations (including 36 exclusive brand outlets) in H1 FY2024, many of which were opened in tier-II and tier-III cities over the last two years, along with shutting down three brands – AND Girl (western kid's wear), Global Desi Girl (ethnic kid's wear) and ITSE (economy ethnic wear). The corresponding inventory was liquidated at steep discounts to manage cash flows, thereby impacting the Group's revenue and profitability in H1 FY2024. Going forward, the company is likely to remain conservative in new store addition with a focus on improving the profitability of existing stores and deepening its presence in the larger cities. ICRA expects the Group's revenue to remain in the range of Rs. 500-550 crore in FY2024 and FY2025, against Rs. 606 crore in FY2023, with an operating profit margin of 19-20% per annum. The Group's debt coverage indicators are projected to remain constrained with an interest cover of less than 2.5 times and total debt/OPBDITA of more than 4.0 times in FY2024. Nevertheless, the Group is expected to have sufficient liquidity to meet its debt repayment obligation over the medium term, largely from improving profitability and tight control over inventory build-up, which remains a key monitorable.

The ratings continue to draw strength from the strong brand presence of the Group's flagship brands AND, Global Desi and Anita Dongre in the domestic women's wear category as well as its established pan-India multi-channel distribution network. The ratings also derive comfort from the Group's experienced promoters along with significant ownership by a large private equity firm.

The ratings, however, remain constrained by the high brand concentration risk and high working capital intensity of operations due to large inventory holding requirements, which expose the company to inventory write-off risks in the face of rapidly changing fashion trends and consumer preferences. The ratings also factor in the vulnerability of the business to adverse market conditions due to factors including lower discretionary spending and intense competition in the highly fragmented apparel retail industry.

Key rating drivers and their description

Credit strengths

Strong brand equity of flagship brands – The Group has an established presence in the women's wear segment with its western wear brand, AND (launched in 1999), and fusion wear brand, Global Desi (launched in 2009). The two flagship brands accounted for ~75% of the Group's revenue in FY2023 with the balance contributed by the luxury designer wear brand Anita Dongre. The flagship brands continue to enjoy a healthy brand recall in the domestic branded apparels market, which is expected to translate into sustained store footfalls. In H1 FY2024, the Group has shut down three brands – AND Girl, Global Desi Girl and ITSE – due to weaker-than-expected traction in these brands.

Established distribution network – The company has built a pan-India presence through exclusive brand outlets (EBOs; both company owned and franchised), large-format stores (LFSs) and multi-brand outlets (MBOs). As on September 30, 2023, the Group had a network of 209 EBOs and 798 MBOs/LFSs focused on metros and tier-I cities. After rapidly expanding through addition of more than 200 retail locations in FY2022 and FY2023, the company closed 236 underperforming stores in H1 FY2024, mainly in tier-II and tier-III cities. The Group is expected to remain conservative in store additions, going forward, and focus on improving the profitability of its existing network while deepening its presence in the existing markets. The Group also has presence in the e-commerce channel (marketplaces and own website), which is likely to continue to account for ~15% of revenues over the medium term.

Experienced promoters and management team – The Group's promoters have extensive experience in the fashion industry with Ms. Anita Dongre overseeing the creative function for the Group. They are ably supported by an experienced management team. Moreover, General Atlantic PE has nominated directors on the board of HOADPL whose experience is an asset for the company.

Credit challenges

Moderate financial risk profile – The Group's financial risk profile remains moderate with a leveraged capital structure, characterised by gearing and TOL/TNW of 2.3 times and 3.5 times, respectively, as on March 31, 2023 against 1.6 times and 2.4 times, respectively, as on March 31, 2022. With an anticipated net loss in FY2024, the Group's capital structure could experience further moderation. The debt coverage indicators are also likely to remain constrained over the near-to-medium term owing to subdued operating performance.

High working capital intensity of operations – The Group's business remains working capital intensive with high inventory holding requirements for existing as well as new stores. Apart from increased funding requirements, the large inventory translates into higher risk of obsolescence due to the fast-changing fashion trends, resulting in higher discounting and/or inventory write-offs, which impact profitability. The inventory levels stood at 170-180 days over the last three years. ICRA notes the Group's initiatives in H1 FY2024 to clear old inventory, which resulted in an improvement in its inventory ageing profile. Going forward, the Group's ability to efficiently manage its inventory levels, while targeting growth, will remain a crucial determinant of its credit profile.

Vulnerability of revenue and margins to changing consumer preferences and evolving macro-economic environment; intense competition – The Group's revenues, profitability and cash accruals, like other apparel retailers, are closely linked to macro-economic conditions and spending patterns, particularly considering the discretionary nature of its products. Lower disposable income due to persistent high inflation could have a material adverse impact on the Group's business prospects. Besides, its sales remain vulnerable to fast-changing fashion trends and evolving consumer preferences. The women's wear segment is highly competitive with the presence of various branded and unbranded players. The Group faces stiff competition from foreign brands like Zara and H&M, which are rapidly increasing their footprint in the country, albeit in the metros and tier-I cities. Numerous national, regional and local brands and boutiques also add to the competition, resulting in intense price pressure and high discounts, which may impact the Group's profitability.

Liquidity position: Adequate

The Group's liquidity remains adequate with positive cash flow from operations and buffer in working capital limits expected to be sufficient to meet the debt servicing obligations. ICRA expects the Group to generate cash flow from operations of ~Rs. 90 crore in FY2024 supported by a sizeable reduction in inventory holding. While the average working capital utilisation remained at 91% for the 12-month period ending on November 30, 2023, the Group availed a fresh term loan of Rs. 15 crore in H1 FY2024 towards reimbursement of earlier capex, which adds to the liquidity cushion. Against this, the Group has debt repayment obligation of ~Rs. 103 crore (including lease liabilities of Rs. 98.5 crore) in FY2024 and minimal cash capex requirements. Cash flow from operations are projected at ~Rs. 60 crore per annum over the next 12-18 months.

Rating sensitivities

Positive factors – Given the Negative outlook on the long-term rating, an upgrade in the ratings is unlikely in the near term. The outlook may be changed to Stable if the Group demonstrates a sustained improvement in its debt protection metrics and liquidity position while achieving profitable scale-up of operations.

Negative factors – Pressure on the ratings could arise if there is a sustained decline in revenue and/or profitability, or if a stretch in the working capital cycle materially impacts its liquidity profile and coverage indicators. Specific credit metrics that could trigger ratings downgrade include an interest cover below 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Apparels)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HOADPL as enlisted in Annexure II

About the company

House of Anita Dongre Private Limited (HOADPL), incorporated in 1995, is involved in designing, manufacturing and retailing of apparel. The company, along with its wholly owned subsidiary, Ochre and Black Private Limited (OBPL), is referred to as the HOADPL Group. It is present in the women's wear category with a product portfolio spanning western wear and ethnic/fusion wear. The Group's focus is on the mass premium price segment, represented by its flagship brands AND and Global Desi. The brand – Anita Dongre – is targeted at the high-end luxury segment. The retail channel comprises exclusive-brand outlets (EBOs) and large format stores (LFS) across India.

The company was renamed from AND Designs India Limited in July 2015 and was converted into a private limited company in January 2020. In March 2019, as a part of its corporate restructuring process, HOADPL had transferred the business under AND and Global Desi to its wholly owned subsidiary, OBPL.

Key financial indicators

Consolidated	FY2022 (audited)	FY2023 (audited)	H1 FY2024 (provisional)
Operating income	417	601	249
PAT	-18	0	-22
OPBDIT/OI	13.1%	19.1%	15.9%
PAT/OI	-4.2%	0.1%	-8.9%
Total outside liabilities/Tangible net worth (times)	2.4	3.5	N.A.
Total debt/OPBDIT (times)	4.8	3.3	N.A.
Interest coverage (times)	1.7	3.1	2.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; N.A. – Not Available
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
					Jan 31, 2024	Oct 07, 2022	Mar 28, 2022	Feb 22, 2021	Jul 31, 2020	May 18, 2020
1	Working Capital Facilities	Long-term/ short-term	10.00	-	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A1
2	Unallocated Limits	Long-term/ short-term	10.00	-	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/short-term Fund-based – Working Capital Facilities	Simple
Long-term/short-term – Unallocated Limits	Not applicable

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	**Working Capital Facilities**	NA	NA	NA	10.00	[ICRA]BBB (Negative)/ [ICRA]A3+
N.A.	**Unallocated Limits**	NA	NA	NA	10.00	[ICRA]BBB (Negative)/ [ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
House of Anita Dongre Private Limited	- (rated entity)	Full Consolidation
Ochre and Black Private Limited	100.0%	Full Consolidation
House of Anita Dongre (USA) Inc.	100.0%	Full Consolidation
The Anita Dongre Foundation	100.0%	Full Consolidation

Source: Company data

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About ICRA Limited:

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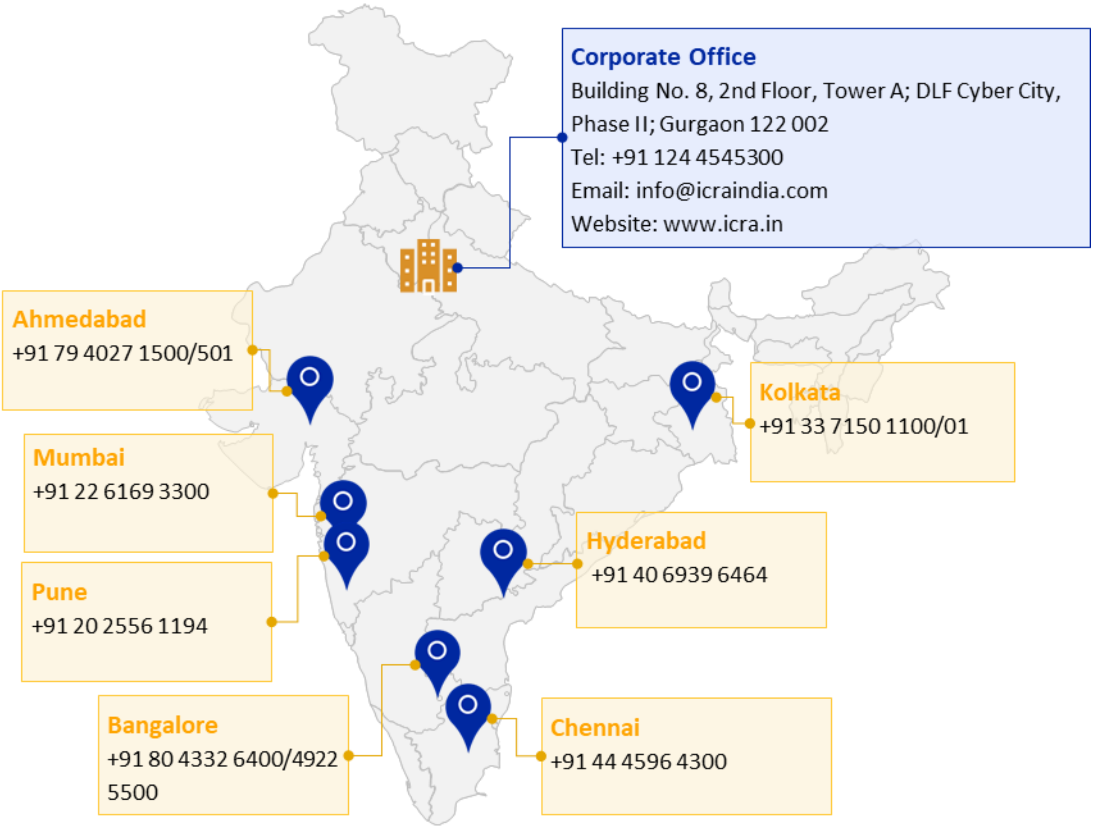

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