

March 31, 2024

Duke Fashions (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	60.00	60.00	[ICRA]A-(Stable); reaffirmed
Long-term – Fund-based – Term loan	0.00	1.20	[ICRA]A-(Stable); reaffirmed
Long-term/Short-term – Non-fund based - Others	1.25	1.25	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Long-term – Unallocated	2.25	1.05	[ICRA]A-(Stable); reaffirmed
Total	63.50	63.50	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to derive comfort from the extensive experience of the promoters and the management of Duke Fashions (India) Limited (DFIL) along with the established presence of the company's brand, Duke, in the domestic readymade garments industry. Its wide product portfolio for menswear in the economy segment and its established pan-India multi-channel distribution network also support the ratings. The ratings also factor in DFIL's healthy financial profile characterised by comfortable debt coverage indicators and a conservative capital structure, given the asset-light model of operations with most of the manufacturing outsourced to select vendors on a job-work basis and limited dependence on company-managed stores due to a multi-channel distribution network. In the recent times, the company has tied-up with many multi-brand outlets (MBOs) in Tier-2 and Tier-3 cities to boost sales. Consequently, the number of large-format stores increased to 1,368 in FY2023 from 580 in FY2021. Also, the footwear segment is increasing gradually, though it contributes limited margins.

The ratings, however, remain constrained by the company's working capital-intensive nature of operations with requirements of a sizeable inventory holding and credit period offered to the customers. Further, intense competition from other domestic players and low-cost countries, restrict the company's pricing flexibility and consequently limits any scope for improvement in its margins. Additionally, DFIL remains vulnerable to the consumers' changing tastes and preferences, exposing the company to business risk.

The Stable outlook on the long-term rating reflects ICRA's opinion that DFIL is likely to sustain its operating metrics even with some pressure on its revenue growth. ICRA expects that DFIL's working capital requirements will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established brand presence in domestic apparel market through Duke – The company's brand, Duke, has an established presence in the domestic apparel market through its wide product portfolio for men, women and kids in the economy price segment. The company's pan-India multi-channel distribution network comprised 419 exclusive brand outlets (EBOs), 4,022 multi-brand outlets (MBOs) and 1,344 large-format retail stores (LFRs) as on January 31, 2024. The EBOs allow the company flexibility in promotion and brand building, enabling direct engagement with customers. On the other hand, the MBO and LFR channels together with significant online presence, help the company expand its geographical presence with minimal investments. The extensive experience of the promoters in the textile industry, supported by a professional management team, is an added advantage.

Conservative capital structure and comfortable coverage indicators – DFIL’s financial profile is characterised by a conservative capital structure, reflected in a gearing ratio of 0.3 times along with healthy credit metrics with OPBDITA/interest of 6.7 times, Total Debt/OPBDITA of 1.5 times and DSCR of 5.1 times as on March 31, FY2023. Notwithstanding the high working capital funding requirements in the business, DFIL’s dependence on external debt has remained low over the years. Further, the company’s capex requirement has remained limited.

Asset-light model of operations – The company has an asset-light model of operations, in which most of the manufacturing operations are outsourced. Low dependence on company-managed stores due to a multi-channel distribution network result in scalable business model and supports healthy return on capital.

Credit challenges

Working capital-intensive operations – Duke’s business is working capital intensive with high inventory holding requirements for its existing as well as new stores. Apart from the increased working capital utilisation, large inventory translates into higher risk of obsolescence due to fast-changing fashion trends, which in turn translates into higher discounting, impacting the margins. The inventory has remained high in the range of 190-250 days over the last three years and operations are characterised by high working capital intensity with the net working capital-to-operating income of 62.6% as on March 31, 2023 (54.4% as on March 31, 2022). Nevertheless, ICRA notes that the inventory remains exceptionally higher in March every year in comparison to rest of the months due to its nature of business. Going forward, the company’s ability to efficiently manage its inventory levels, while targeting growth will remain a crucial determinant of its credit profile.

Exposed to consumer spending trends and intense competition – The company’s sales, profitability and cash accruals, like any other apparel retailer, are closely linked to macroeconomic conditions, consumer confidence and spending patterns, particularly considering the discretionary nature of its products. Besides, its sales remain vulnerable to the consumers' changing tastes and preferences, and competition from the highly fragmented and competitive domestic market, which is dominated by the unorganised sector. This impacts the margins and maintains pricing pressure, especially given the company’s presence in the economy segment of apparels.

Liquidity position: Adequate

The company’s liquidity position is adequate, reflected in an average working capital limit utilisation of 85% in the past 10 months ending in January 2024, which provides it with modest cushion to fund the additional working capital needs. The liquidity profile is also supported by minimal repayment obligations, discretionary nature of the capex and an adequate cushion available in its drawing power. Further, need-based support from the promoters in the form of flexible unsecured loans would continue to provide comfort to the company’s liquidity.

Rating Sensitivities

Positive factors – The ratings could be upgraded, if there is a sustained improvement in DFIL’s revenues and profitability, on a sustained basis. An improvement in DFIL’s working capital cycle as well as liquidity, on a sustained basis, could also lead to an upgrade of ratings.

Negative factors – The ratings could be downgraded, if DFIL undertakes aggressive debt-funded investments/acquisitions or experiences a significant stretch in its working capital cycle, affecting its liquidity. A specific credit metric that could result in a downgrade is if interest coverage falls below 4.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for entities in the Textiles (Apparels) Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

DFIL, incorporated in 1966, retails branded apparels in the domestic market under its brand, Duke. The company is promoted by Mr. Komal Kumar Jain, who has been involved in the knitted hosiery textile business for more than five decades. DFIL was primarily involved in manufacturing knitted fabric till 1990, when it diversified into branded T-shirts and vests. Over the years, DFIL has diversified its product portfolio to include the entire range of summer and winter wear for men, women and children and footwear. Duke's product range is retailed through a multi-channel distribution network comprising ~419 exclusive brand outlets, ~4,022 multi-brand outlets and ~1,344 large-format retail stores as on January 31, 2024.

Key financial indicators

Duke Fashions (India) Limited	FY2022	FY2023
Operating income (Rs. crore)	360.6	403.6
PAT (Rs. crore)	22.7	26.7
OPBDIT/OI	9.0%	11.0%
PAT/OI	6.3%	6.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.7
Total debt/OPBDIT (times)	1.1	1.5
Interest coverage (times)	8.3	6.7

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

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 31, 2024	Mar 14, 2023	Feb 07, 2022	Jan 14, 2021
1 Fund-Based – Cash Credit	Long-term	60.00	NA	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2 Fund-Based – Term Loan	Long-term	1.20	1.20	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3 Non-fund Based - Others	Long-term/short-term	1.25	NA	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+
4 Unallocated	Long-term	1.05	NA	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Long-term – Fund-based – Term Loan	Simple
Long-term/Short-term - Non-fund-based – Others	Very simple
Long-term – Unallocated	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
NA	Long-term – Fund based – Cash Credit	NA	NA	NA	60.00	[ICRA]A- (Stable)
NA	Long-term – Fund based – Term Loan	FY2023	10.6%	FY2028	1.20	[ICRA]A- (Stable)
NA	Long-term/Short-term - Non-fund-based – Others	NA	NA	NA	1.25	[ICRA]A- (Stable)/[ICRA]A2+
NA	Long-term – Unallocated	NA	NA	NA	1.05	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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