

August 23, 2024

Cantabil Retail India Ltd.: Long-term rating upgraded to [ICRA]A (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	57.50	57.50	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Short-term – Non Fund-Based Facilities	2.00	2.00	[ICRA]A2+; reaffirmed
Long-term/short-term – Unallocated Limits	15.50	15.50	[ICRA]A (Stable)/ [ICRA]A2+; Long-term rating upgraded from [ICRA]A- (Stable) and Short-term rating reaffirmed
Total	75.00	75.00	

*Instrument details are provided in Annexure-I

Rationale

The long-term rating upgrade considers the notable improvement in Cantabil Retail India Limited's (CRIL) revenue in FY2024 on a YoY basis (after a ~44% growth witnessed in FY2023) along with further strengthening of other operational and financial indicators. ICRA expects that CRIL's steady performance would continue over the medium term, aided by planned store addition and increasing brand awareness. CRIL's operating income surged by more than 11% on a YoY basis to ~Rs. 616 crore in FY2024, driven by a ~9% YoY growth in sales volume (across product categories). Though CRIL's operating margin slipped to ~27% in FY2024 from 30% in FY2023, hindered by a marginal decline in average realisation, increase in e-commerce sales where margin is comparatively lower than offline sales and decline in the same store sales by around 4% in value and ~2% in volume terms on a YoY basis owing to slow demand, it still remained at a comfortable level. The company added 86 stores (including two franchised stores) in FY2024, taking the year-end store count to 533 stores, with presence across the country. In Q1 FY2025, the company added 11 new stores. ICRA expects the company to record a healthy revenue growth over the medium term, while sustaining its operating margins. While CRIL's business is expected to be supported by planned store expansion, likely moderation in average realisations, evolving discretionary spending patterns amid high inflation and a high base of FY2024 could have a bearing on the company's performance in the near term. Nevertheless, CRIL's financial risk profile is expected to remain comfortable with low reliance on external debt (except lease liabilities) and steady cash flow from operations. ICRA expects the interest cover in FY2025 to improve from its current level (5.2 times in FY2024) and the gearing to remain at around 1 times over the medium term.

The ratings continue to favourably factor in the established presence of its flagship brand, Cantabil, in the value-for-money men's wear segment, particularly in North and West India, and the pan-India distribution network comprising 533 exclusive brand outlets (EBOs) as on March 31, 2024. The ratings derive comfort from the asset light business model of the company, which has a combination of in-house and outsourced manufacturing along with the outright purchase of apparels, which allows substantial operating flexibility. Limited dependence on external financing and healthy cash flow from operations, resulting in a comfortable capital structure and healthy debt protection metrics, also support the ratings.

The ratings, however, remain constrained by the high working capital intensity of operations due to large inventory holding requirements, which expose the company to substantial inventory write-off risks amid the rapidly changing fashion trends and consumer preferences. The ratings also consider the high brand concentration risk and the vulnerability of revenue and earnings to adverse market conditions and intense competition in the highly fragmented apparel retail industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that CRIL will continue to maintain a comfortable financial risk profile on the back of a steady growth in earnings over the medium term.

Key rating drivers and their description

Credit strengths

Established market position in the men's wear segment and expanding retail network in tier-II and tier-III cities, leading to steady revenue growth – The company's flagship brand, Cantabil, has an established presence in the domestic apparel market, offering a wide product portfolio across men's wear, women's wear, kids' wear and accessories. Men's wear continues to dominate CRIL's revenue mix, contributing more than 80% to the revenues in FY2024, due to its long presence in the segment. Nevertheless, the other product categories have recorded a steady increase in revenue contribution. CRIL operates a pan-India retail network of 533 EBOs, including 131 franchised stores, as on March 31, 2024, with Rajasthan, Uttar Pradesh, Maharashtra, Delhi and Haryana each accounting for more than 10% of the total stores. CRIL is present in 268 cities across 20 states. The company plans to aggressively expand its retail network over the coming years, with a focus on tier-II and tier-III cities to serve the young customers and benefit from relatively lower competition. ICRA expects the increasing retail presence and expanding brand awareness to benefit the company over the medium term.

Comfortable capital structure and healthy debt coverage metrics – CRIL recorded a healthy financial performance in FY2024 with ~11.5% YoY revenue growth (after a ~44% growth witnessed in FY2023) and ~26.7% rise in the operating profit margin. The revenue growth was driven by the addition of 86 new stores in FY2024 as same store sales witnessed a decline both in value and volume terms as demand was tepid. The company's financial risk profile benefits from its low reliance on external debt for working capital and absence of any long-term debt (except lease liabilities). While the gearing stood at a moderate level of 1.0 times as on March 31, 2024, the major portion of the debt is in the form of lease liabilities. CRIL's debt coverage indicators are expected to remain healthy and ICRA expects the interest cover to improve in FY2025 from 5.2 times as on March 31, 2024.

Asset-light business model allows greater operating flexibility – CRIL operates with an asset-light business model wherein about 25% of the apparels is manufactured in-house. The company sources around 35% of its requirements from job workers fabricators and the balance 40% directly from traders on a free-on-board (FOB) basis. Designing and product development are managed in-house to keep control over styling. CRIL's business model allows greater operating flexibility by keeping fixed costs under check.

Extensive experience of promoters and management – CRIL was founded in 1989 by Mr. Vijay Bansal and his family members who have a long experience in the textile industry. The promoters are supported by a team of technically qualified and experienced professionals. These are likely to aid the company in understanding customer preferences and maintaining a sustainable supply chain over the medium term.

Credit challenges

High working capital intensity of operations due to large inventory holding requirement and planned store addition – CRIL's business is working capital intensive with sizeable inventory holding requirements for existing as well as new stores, reflected in the net working capital to the operating income (NWC/OI) ratio of ~29% in FY2024. Apart from increased funding requirements, a large inventory exposes the company to the risk of obsolescence, which could impact its margins. The inventory levels have remained elevated at 230-250 days over the past two years and are likely to remain high amid plans of store additions over the coming years. The company's ability to manage its inventory levels, while targeting growth, remains a key monitorable.

High brand, product and geographical concentration of revenue; likely to improve over the medium-to-long term – CRIL's revenues demonstrate high concentration risks with a single brand name, dependence on men's wear, which accounts for more than 80% of the annual revenue and high concentration of revenue in North India. Nevertheless, ICRA notes that the geographical diversification of revenue is likely to record a gradual improvement in the coming years. Further, the management is taking initiatives to diversify its product mix by opening larger full family stores and launching new products under accessories and athleisure segments, including footwear, which are likely to bear fruit over the medium-to-long term.

Exposure to intense competition, changing consumer preferences and evolving discretionary spending trends – The apparel retail market is very competitive with the presence of various branded and unbranded players. Aggressive expansion by other domestic and foreign branded apparel retailers are likely to further increase industry competition, even in tier-II and tier-III markets, which could impact the company's growth and profitability. CRIL also remains vulnerable to changing consumer preferences and fashion trends, which increase the risks of inventory markdowns. However, the company's apparels not positioned in the fast-fashion category mitigate the risk to an extent. Further, any deterioration in the overall macro-economic environment, translating into subdued discretionary spending by consumers could impact CRIL's growth plans.

Environmental and social risks

Environmental considerations – The overall exposure to environmental risks remains low for apparel retailers. Increase in raw material costs (mainly cotton, which is a water-intensive crop and production of the same is dependent on rainfall), could impact the margins of CRIL. Moreover, any tightening of waste control norms could necessitate significant capital expenditure by the company, affecting its financial profile and liquidity.

Social considerations – CRIL is exposed to the risk of business disruptions due to inability to properly manage human capital in terms of their safety and overall well being. Any significant increase in wage rates may adversely impact the cost structure of apparel retailers, impacting their margins. Besides, human rights violations could pose risks for the company. As a retailer, CRIL is also subject to other social factors including responsible sourcing, product and supply chain sustainability, given high reliance on external suppliers. The company also remains exposed to any major shift in consumer preferences or developments affecting discretionary spending patterns in key markets.

Liquidity position: Adequate

CRIL's liquidity remains adequate, characterised by free cash and buffer from undrawn working capital limits worth around ~Rs. 50 crore as on March 31, 2024. ICRA expects the company to generate cash flow from operations worth Rs. 95-100 crore in FY2025 and improve gradually thereafter. Against this, it has planned capital expenditure requirement of Rs. 50-51 crore in FY2025 towards store addition and construction of a new office and warehouse (excluding addition for right to use assets for addition of the company-owned, company-operated stores). While the company does not have any term debt repayment obligation, it has financial lease repayment liability worth around Rs. 47 crore in FY2025. ICRA also draws comfort from the moderate average utilisation of the sanctioned working capital limits, which stood at 39% (with commensurate drawing power) in FY2024, which provides a healthy buffer.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of a sustained improvement in its revenue and profitability with efficient working capital management while maintaining a comfortable liquidity profile.

Negative factors – Pressure on CRIL's rating could arise if a significant decline in revenue and/or profitability or a stretch in the working capital cycle materially impacts the company's liquidity profile on a sustained basis. Any large unanticipated debt-funded capex or inorganic growth, impacting the credit rating metrics significantly, could also result in ratings downgrade. Specific credit metric that could result in ratings downgrade include an interest cover below 4.5 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	Standalone

About the company

Cantabil Retail India Limited (CRIL) is involved in designing, manufacturing, branding and retailing of branded apparel and accessories for men, women and kids in the economy to mid-range price segments through a pan-India network of EBOs under the flagship brand, Cantabil. As on March 31, 2024, CRIL operated 533 EBOs, including 131 franchised stores. In Q1 FY2025, the company added 11 new stores. The company also operates a fully integrated manufacturing facility in Bahadurgarh, Haryana with an installed capacity of ~1.5 million pieces per year.

The company was incorporated as Kapish Sales Private Limited in February 1989 by Mr. Vijay Bansal and his family members in New Delhi. It was subsequently renamed Cantabil Retail Private Limited in March 2009 and was listed on BSE and NSE in October 2010.

Key financial indicators (audited)

	FY2023	FY2024	Q1 FY2025
Operating income	552.8	616.5	127.9
PAT	67.2	62.2	11.4
OPBDIT/OI	30.2%	26.7%	30.8%
PAT/OI	12.2%	10.1%	8.9%
Total outside liabilities/Tangible net worth (times)	1.7	1.3	-
Total debt/OPBDIT (times)	1.7	2.0	-
Interest coverage (times)	5.9	5.2	5.0

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Aug 23, 2024	Jul 20, 2023	Jun 15, 2022	Jul 26, 2021
1 Working Capital Facilities	Long-term	57.50	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2 Non Fund-Based Facilities	Short-term	2.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
3 Unallocated Limits	Long-term/short-term	15.50	[ICRA]A (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]BBB+ (Stable)/[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Working Capital Facilities	Simple
Short-term – Non Fund-Based Facilities	Simple
Long-term/short-term – Unallocated Limits	N.A.

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	Working Capital Facilities	NA	NA	NA	57.50	[ICRA]A (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	2.00	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	15.50	[ICRA]A (Stable)/[ICRA]A2+

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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