

September 27, 2019

House of Anita Dongre Limited: Ratings downgraded to [ICRA]A/[ICRA]A1; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action ¹
Long-term fund-based limits	6.00	6.00	[ICRA]A(Negative) downgraded from [ICRA]A+(Stable)
Long-term/short-term fund-based limits	10.00	10.00	[ICRA]A(Negative)/[ICRA]A1 downgraded from [ICRA]A+(Stable)/[ICRA]A1+
Long-term/short-term unallocated	4.00	4.00	[ICRA]A(Negative)/[ICRA]A1 downgraded from [ICRA]A+(Stable)/[ICRA]A1+
Total	20.00	20.0	

*Instrument details are provided in Annexure-1

Rationale

On March 28, 2019, the Board of House of Anita Dongre Limited (HOADL), as part of its corporate restructuring, transferred the businesses under its two brands, AND and Global Desi under a slump sale arrangement to a newly formed wholly-owned subsidiary, Ochre and Black Private Limited (OBPL) - effective April 01, 2019. HOADL will continue to manage the business under its two brands - Anita Dongre and Grassroot.

For arriving at the ratings, ICRA has assessed the consolidated financial risk profile of the House of Anita Dongre (HOADL - referred to as Group) because of the expected strong operational and financial linkages between HOADL and OBPL. There is also a proposed corporate guarantee by HOADL to OBPL's bank loans, which is expected to be executed soon.

The ratings revision follows significant deviation in the Group's performance as per the revised provisional financials for FY2019 shared with ICRA; revised operating margins, return on capital employed and consequently debt protection metrics are materially lower than the earlier company estimates shared with ICRA. Thus, as per the revised numbers, the company's credit profile has witnessed a deterioration with the operating margin and the return on capital employed (RoCE) declining to 5.2% and 1.3% respectively during FY2019 from 8.2% and 5.8% respectively during FY2018. Consequently, the company's gross debt/OPBITDA has also deteriorated to 1.5 times during FY2019 against 0.8 times during FY2018. The revised provisional numbers shared by the company have materially altered ICRA's view on the company's business performance and consequently expectations on future financials of the company. While ICRA expects the final audited numbers to be in line with the current provisional numbers, this would remain a rating monitorable.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications www.icra.in

The deterioration in the Group's operating performance over the past three fiscals is attributable to macro-economic challenges, increasing competitive intensity and product-specific issues faced by the company. Disruptions due to macro-economic events such as demonetisation and introduction of the Goods and Services Tax (GST) had impacted consumer spending in FY2017 and FY2018 to varying degrees. The key challenge for the Group has been an increase in the competitive intensity in the women's wear market with greater penetration of various foreign brands such as Zara and H&M, proliferation of private labels and competition from incumbent national, regional and local brands, leading to price competition and higher discounting trend in the industry. Apart from the above factors, slowing economic growth impacting discretionary spending and the product positioning challenge for its Global Desi brand continues to impact the Group's revenue growth. As the business has a high operating leverage (fixed rental and employee costs), it has led to the under-absorption of overhead costs and pressure on operating profitability. Moreover, slowing revenue growth has contributed to the increase in working capital intensity. The inventory remains susceptible to markdowns in case of a demand slowdown and reduction in sales velocity.

The revision in outlook to Negative from Stable factors in the muted macro-economic scenario impacting consumer discretionary spending, intense competition prevailing in the womenswear segment and the company going through a transition phase as it addresses product specific challenges for the Global Desi brand. The above factors are likely to maintain pressure on the company's profitability metrics and hence its credit profile.

The ratings nevertheless continue to favourably factor in the Group's adequate financial risk profile, its experienced promoter and management team, established brands and diversified presence in the womenswear segment. The Group's adequate financial risk profile is reflected in moderate debt levels, net debt free balance sheet and reasonable debt protection metrics. The promoters have a vast experience in the fashion industry with their expertise in designing, production and marketing, aided by a sound management team. The Group has established brands in the mass premium category and diversified and balanced presence across the western wear segment—through AND—and in the fusion wear segment—through Global Desi; both these brands account for approximately 81-82% of the Group's net revenues. Furthermore, the Group has a meaningful and growing presence in the high-end luxury fashion segment through its two brands - Anita Dongre and Grassroot. The ratings also factor in the high growth rate in the organised women's wear market. Growth in the organised women's wear segment, which remains under-served, is expected to be led by the increasing proportion of women in the workforce, leading to higher purchasing power and greater reach of organised retail through shopping centres and the e-commerce route.

Key rating drivers and their description

Credit strengths

Vast experience of promoters and management team in the fashion industry; active commitment of promoters in the business - The promoters have vast experience in the industry with Ms. Anita Dongre overseeing the design aspect for the Group and the other two promoters contributing to the manufacturing, production, logistics and retailing functions. They are ably supported by sound management teams heading the critical functions. To further professionalise the company and bring in external inputs, the company, in the beginning of this fiscal, appointed Mr. Kavindra Mishra - who has an extensive experience in the branded apparel industry - as its chief executive officer.

Established presence led by flagship brands like AND and Global Desi - The Group has an established presence in the organised women's wear segment with its western wear brand AND, having been introduced in 1999 and its fusion wear brand, Global Desi, which started in 2009. Both brands have enjoyed successful runs in their respective segments. The two contribute approximately 82% to the Group's revenues with the balance 18% being generated by its high-end luxury

fashion labels such as 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 and net debt free status lends adequate financial flexibility - The Group is well capitalised, having received Rs. 100.0-crore equity infusion from General Atlantic during FY2014. Further, it has moderate debt levels and remains net debt free and consequently, has adequate debt protection metrics (total debt/OPBITDA of 1.5 times and interest coverage of 6.7 times as per revised provisional standalone FY2019 numbers) lending it adequate financial flexibility.

Growth prospects remain buoyant for the women's wear market - The women's wear market is significantly under-penetrated with the category comprising 38-39% of overall sales, compared to a global average of 52-53%. This is largely attributable to the unorganised nature of the Indian women's wear market. With increasing penetration of organised retail and consumers switching to branded apparel from unbranded ones across regions, it has led to a double-digit growth rate for the organised segment and provides adequate room for industry players to grow in the medium to longer term.

Credit challenges

Vulnerability of sales to macro-economic scenario and changing consumer preferences - The Group's sales remain vulnerable to the macro-economic scenario and changing tastes and preferences of consumers, which vary across regions and fashion trends that change fast. Disruptions due to events such as demonetisation and the introduction of the GST have impacted consumer spending to varying degrees. Inventory, which is a key parameter for the industry, thus remains susceptible to markdowns in case of a sharp demand slowdown and slower sales could lead to a higher working capital intensity. Macro-economic growth slowdown during FY2019 has led to a reduction in the discretionary spending impacting the Group's revenue growth and putting pressure on its working capital intensity.

Competition from various established global as well as national, regional and local brands - One of the key challenges the Group has been facing is the increase in competitive intensity in the women's wear market. This is largely due to the higher presence of various foreign brands, such as Zara and H&M, proliferation of private labels and competition from incumbent national, regional and local brands. This, apart from the reduction in discretionary spending by consumers, has led to price competition and higher discounting trends in the industry, which has had a marked impact on the Group's profitability.

High operating leverage in the business has led to deterioration in the company's profitability indicators - The macro-economic scenario and competitive intensity along with the Group's product-specific issues—as explained earlier—have contributed to muted sales growth during FY2018 and FY2019. As the business has a high operating leverage (fixed rentals and employee costs), it has resulted in deterioration in the profitability indicators during the past two fiscals with operating margin and return on capital employed (RoCE) declining to 5.2% and 1.3% respectively during FY2019 from 8.2% and 5.8% respectively for FY2018. The Group has initiated many measures to improve its like-to-like (LTL) growth, reduce inventory levels, tackle competition across its brand portfolio and address product-specific challenges. Along with the above, a conducive macro-economic environment will be crucial to support the Group's sales growth and arrest the decline in its profitability to sustain its credit profile.

Liquidity position: Adequate

The group's liquidity is adequate supported by unutilised bank limits and unencumbered cash and equivalents of Rs. 45 crore as on March 31, 2019. The average working capital utilisation as a percentage of sanctioned limits has been around 70% for the 15 months leading up to August 2019; further, the company also has adequate drawing power to enhance its

sanctioned working capital limits. The Group’s ability to improve its profitability and optimise its inventory levels nevertheless will be crucial to support its liquidity position.

Rating sensitivities

Positive triggers – Sustained improvement in operating performance such that consolidated gross debt/OPBITDA remains below 1 and ROCE above 15%.

Negative triggers – Deterioration in profitability and/or increase in working capital requirement or reduction in its liquidity buffer such that gross debt/OPBITDA exceeds 2 times on a sustained basis.

-Any dilution of HOADL’s stake in OBPL impacting HOADL’s ability to provide financial support to OBPL or vice versa will be a credit negative.

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 HOADL’s consolidated financial profile.

About the company

House of Anita Dongre Limited, HOADL, is in the business of designing, manufacturing and retailing apparel. In July 2015, the Group was renamed House of Anita Dongre Limited from AND Designs India Limited. On March 28, 2019, the Board of HOADL, as part of its corporate restructuring process, transferred the businesses under its two brands, AND and Global Desi to a newly formed wholly-owned subsidiary, Ochre and Black Private Limited. HOADL will continue to manage the two high-end brands, Anita Dongre and Grassroot.

The HOADL Group is present in the women’s wear category, with a 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, the fusion wear (western and ethnic wear) brand. HOADL’s couture category has two brands—the Anita Dongre and Grassroot, which is 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 outlets across tier-I, II and III cities as well as emerging towns in India.

Key financial indicators

	FY2018	FY2019
	Audited	Revised provisional
Operating Income (Rs. crore)	479.0	512.3
PAT (Rs. crore)	7.9	-1.4
OPBDIT/OI (%)	8.2%	5.2%
RoCE (%)	5.8%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.8	1.5
Interest Coverage (times)	11.7	6.7
DSCR	8.4	5.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				27-September 2019	29-July 2019	27-April 2018	15-June 2017	23-May 2016	
1 Long-term fund-based limits	Long term	6.00	-	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	
2 Long-term/short-term fund based limits	Long-term/short term	10.00	-	[ICRA]A (Negative)/A1	[ICRA]A+ (Stable)/A1+	-	-	-	
3 Long-term/short-term Unallocated	Long-term/short term	4.00	-	[ICRA]A (Negative)/A1	[ICRA]A+ (Stable)/A1+	[ICRA]A+ (Stable)/A1+	[ICRA]A+ (Stable)/A1+	-	

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)	Rating and Outlook
NA	Long-term fund-based limits	-	NA	NA	6.00	[ICRA]A(Negative)
NA	Long-term/short-term fund-based limits	-	NA	NA	10.00	[ICRA]A(Negative)/A1
NA	Long-term/short-term Unallocated	-	NA	NA	4.00	[ICRA]A(Negative)/A1

Source: HOADL

Annexure-2: List of entities considered for consolidated analysis

Group Name	Ownership	Consolidation Approach
House of Anita Dongre Limited	-	Holding company
House of Anita Dongre (USA) Inc.	100%	Full consolidation
The Anita Dongre Foundation	100%	Full consolidation
Ochre and Black Private Limited*	100%	Full consolidation

*Effective from April 01, 2019

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