June 01, 2020

Cantabil Retail India Ltd: [ICRA]BBB+(Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Working capital limits	47.00	[ICRA]BBB+(Stable); assigned
Term loan	4.00	[ICRA]BBB+(Stable); assigned
Non fund based limits	5.00	[ICRA]A2; assigned
Proposed/Unallocated limits	4.00	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Total	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings take into account the extensive experience of the promoters' of Cantabil Retail India Ltd. (CRIL) in the textile retail industry and the company's established brand presence in the value for money men's wear segment. ICRA notes its expanding retail footprint, mainly across northern and western India. The ratings also draw comfort from the combination of owned and outsourced production facilities, which render higher flexibility of fixed overheads, thereby supporting its margin to some extent. Moreover, its limited capital expenditure (capex) plan over the medium term, strong net worth base and relatively limited dependence on external borrowings have all resulted in a comfortable capital structure as indicated by low gearing level at ~0.5 times in FY2019 and H1 FY2020. In addition, with an improvement in operating profitability, the debt coverage metrics as indicated by OPBIDTA/Interest improved to 6.1 times in 9M FY2020 from 3.5 times in FY2019. Given the borrowing for full year FY2020, which is largely restricted to working capital needs, the interest coverage indicator is estimated to remain healthy for FY2020 as well.

The ratings, however, are constrained by the seasonality in sales with higher revenues typically skewed towards the second half of the year, given CRIL's larger focus on winter wear. Further, high levels of finished goods inventory amid its retailing business have resulted in high working capital requirements, which are partially met through creditor funding. Going forward, the company's ability to minimise its seasonal leftovers on a consistent basis will remain critical for controlling its inventory write-down risks, given the limited outright sales amid fast-changing fashion trends and consumer tastes. The ratings are also constrained by CRIL's vulnerability to adverse economic conditions such as weakness in consumer spending and intense competition in the domestic apparel retail market, which is highly fragmented and keeps competitive pressures high, especially as CRIL operates in the economy branded apparel segment.

In addition, with the expected adverse impact of the Covid-19 pandemic on the retail industry, ICRA expects CRIL's operating performance to remain under pressure in the coming months. ICRA expects the sales for FY2021 to decline by around 18-20% in FY2021 over FY020. CRIL had shut down all its retail stores and manufacturing facilities after the Government of India (GoI) imposed a nationwide lockdown, following the Covid-19 pandemic. While its stores are anticipated to reopen gradually in the coming days across most locations, demand recovery is likely to take a long time, since discretionary consumer spending is expected to remain at a relatively lower level than the preceding fiscal. The earnings and liquidity position of retailers are likely to remain under pressure during the major part of H1 FY2021 as companies resort to reducing inventory levels at extended discounts. ICRA, moreover, notes the invocation of the force majeure clause by most retailers, including CRIL, and their ongoing negotiations to convert existing rental arrangements to variables (as a percentage of revenues), is expected to reduce their rental costs in the coming months. ICRA would continue to monitor the developments related to recovery/normalisation of operations after the lockdown. This will continue be a key monitorable subject in the current fiscal.

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 capex and, thus, borrowing levels.

Key rating drivers and their description

Credit strengths

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

Combination of owned and outsourced production offers better flexibility in controlling overhead costs – CRIL operates on three models—job-work, own manufacturing and trading—with an average contribution of 40:30:30 to the revenues, devoid of any contractual arrangements with third parties. The company undertakes cutting, stitching, washing, buttoning, embroidery, finishing and packaging at its factory unit. Its limited dependency on in-house manufacturing gives it some flexibility to manage overhead costs in an efficient way.

Established brand, 'Cantabil', in the domestic apparel market and expanding distribution network – The company's brand, Cantabil, has an established presence in the domestic apparel market through its wide apparel portfolio for men, women and children mainly in the economy price segment, and its pan India multi-channel distribution network. In the last 18 years, Cantabil has become a complete family wear brand with the addition of women's wear in 2007, and children's wear in FY2019. CRIL's presence is limited to the domestic market, which is largely through the exclusive brand outlet (EBO) model. CRIL's EBOs include its own stores as well as franchisee outlets. As on March 31, 2020, CRIL had a strong network of 302 exclusive retail outlets across more than 17 states in India, out of which 220 were company owned and 82 were franchisee operated.

Comfortable capital structure and healthy coverage indicators - CRIL's financial profile is characterised by a conservative capital structure with healthy credit metrics. The company has been relying heavily on internal accruals and partially on creditor funding, resulting in a moderate debt profile. With ~70% of its readymade garment manufacturing being outsourced, and its leased model for company managed stores, CRIL's capex requirement has remained limited. The gearing stood comfortable at ~0.5 time in FY2019 and H1 FY2020. The interest coverage indicator as indicated by OPBDITA/Interest improved to 6.1 times in 9M FY2020 from 3.5 times in FY2019 on the back of strong growth in operating margins, driven by better procurement arrangements as a result of economies of scale. Given the improvement in profitability, ICRA expects the interest coverage indicator to remain healthy for the full year of FY2020 as well.

Credit challenges

Challenging business environment due to ongoing global pandemic, along with discretionary consumer spending and recalibrated lifestyle - CRIL's sales, profitability and cash accruals, like any other apparel retailer, are closely linked to macro-economic conditions, consumer confidence and spending patterns, particularly considering the discretionary nature of its products. In addition, with the expected adverse impact of the Covid-19 pandemic on the retail industry, ICRA expects CRIL's operating performance to remain under pressure in the coming months. The same is largely because of the prevalent weak demand conditions and potential change in consumer behaviour towards visiting public places. Hence, while the stores are anticipated to reopen gradually in the coming days across most locations, demand recovery is likely to take longer, since discretionary consumer spending is expected to remain at a relatively lower level than the preceding fiscal. Consequently, the company's sales are expected to be minimal in Q1 FY2021 amid the continuing lockdown in key metro cities, with just off-line retail presence.

Seasonality in sales with higher focus on winter wear resulting in skewed revenue typically towards second half of year - CRIL offers a complete range of formal wear, party wear, casual wear and ultra-casual clothing for men, women and children in the middle to high income group. Although the company offers apparel for the summer as well as winter seasons, its sales usually remain low during the first quarter and improves gradually in the second half of the year, because of its increasing dependence on the performance of its winter wear garments.

Working capital intensive business due to high inventory holding; limited sale on outright basis resulting in high risk of sales returns/obsolete inventory amid fast-changing fashion trends – The apparel retail business inherently entails high working capital requirements for stocking garments across a wide product range. The company only operates with EBO formats, where it manages its own inventory movement—barring seven outright sale stores. This typically leads to a considerably high inventory position during the year-end in the company's books. Its inventory levels are particularly high towards the year-end on account of stocks for upcoming store launches and raw material procurement for its winter wear, which are high value products resulting in high working capital intensity of operations with NWC/OI at 23% in FY2019.

High competition in apparel retail market likely to maintain pricing pressure – The company operates in a highly fragmented and competitive domestic market, dominated by the unorganised sector. This impacts the margins and keeps up the pricing pressure, especially given the company's presence in the economy segment of apparels. Given the high proportion of fixed costs and the consistent additional advertisement expenses, revenue fluctuations will continue to have a bearing on profitability.

Liquidity position: Adequate

CRIL's working capital limit utilisation has remained moderate at 65% over the last 15 months with undrawn line of credit of Rs. 24 crore as on March 31, 2020. The liquidity profile is also supported by minimal repayment obligations, discretionary nature of the capex and a healthy cushion available in its drawing power. In this context, ICRA assesses its liquidity as **adequate**. ICRA derives 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 an adequate liquidity buffer at all times, particularly amid the current challenging operating environment.

Rating sensitivities

Positive Triggers - A rating upgrade is possible in case of an improvement in revenue growth and profitability, together with efficient management of working capital requirements, which will strengthen the credit profile. In addition, widening its geographical presence and strengthening its brand will also render support to the credit profile. An improvement in the company's liquidity profile, on a sustained basis, could also be a key positive trigger.

Negative Triggers - A 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 in this case will include an interest cover of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments

Applicable Rating Methodologies	Corporate Rating Methodology Indian Textiles 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 was originally incorporated as "Kapish Sales Private Limited" on February 1989 by Mr. Vijay Bansal and family in New Delhi. Subsequently, the company was renamed to Cantabil Retail India Private Limited in March 2009. Thereafter, in August 2009, the constitution of the company was converted into a public limited company and it was rechristened as Cantabil Retail India Limited. CRIL was listed on the Bombay Stock Exchange and National Stock Exchange on October 10, 2010.

The company is engaged in the designing, manufacturing, branding and retailing of apparels and accessories for men, women and children in the middle to high income group through a chain of retail stores under the brand names, "Cantabil","Crozo","Kaneston" and "Lil Potatoes". The company has a network of 302 EBOs across more than 17 states in India.

The company operates fully integrated manufacturing units in Delhi and Bahadurgarh (Haryana) with a total production capacity of 10 lakh garment pieces per year. The company is also largely dependent on third-party fabricators and traders to meet its garmenting requirements.

In FY2019, the company reported a net profit of Rs. 12.5 crore on an operating income of Rs. 288.6 crore, over a net profit of Rs. 20.0 crore on an operating income of Rs. 196.2 crore in the previous year.

Key financial indicators

	FY2018 Audited	**FY2019 Audited**	**H1FY2020 Unaudited**
Operating Income (Rs. crore)	196.2	288.6	134.8
PAT (Rs. crore)	20.0	12.5	4.2
OPBDIT/OI (%)	10.2%	10.3%	9.4%
RoCE (%)	11.0%	16.8%	12.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8	3.3
Total Debt/OPBDIT (times)	2.3	1.4	2.0
Interest Coverage (times)	2.9	3.5	3.2
DSCR	2.9	2.8	2.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021) Type	Amount Rated	Amount Outstanding	Date & Rating 01-June-20	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2020 -	Date & Rating in FY2019 -	Date & Rating in FY2018 -
1	Cash Credit	Long term	7.50		[ICRA]BBB+(Stable)	-	-	-
2	Term loan	Long term	4.00	4.00	[ICRA]BBB+(Stable)	-	-	-
3	Letter of credit	Short term	5.00		[ICRA]A2			
4	Proposed/Unallocated limits	Long term / Short term	4.00		[ICRA]BBB+(Stable)/ [ICRA]A2			

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit				47.00	[ICRA]BBB+(Stable)
NA	Term loan 1	Oct-2017	9.45%	Oct-2027	1.01	[ICRA]BBB+(Stable)
NA	Term loan 2	Oct-2017	10.7%	Oct-2027	1.55	[ICRA]BBB+(Stable)
NA	Term loan3	Dec-2017	8.35%	Mar-2021	1.42	[ICRA]BBB+(Stable)
NA	Term loan 4	Aug-2018	9.4%	May-2020	0.02	[ICRA]BBB+(Stable)
NA	Letter of credit				5.00	[ICRA]A2
NA	Proposed/Unallocated limits				4.00	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: CRIL

Annexure-2: List of entities considered for consolidated analysis – NA

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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.

For more information, visit www.icra.in

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