

July 31, 2020

House of Anita Dongre Private Limited: Ratings downgraded to [ICRA]A-/Negative/[ICRA]A2+

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	0.00	-
Long-term/short-term fund-based limits	10.00	10.00	Ratings downgraded to [ICRA]A-/Negative/A2+ from [ICRA]A(Negative)/[ICRA]A1
Long-term/short-term unallocated	4.00	10.00	Ratings downgraded to [ICRA]A-/Negative/A2+ from [ICRA]A(Negative)/[ICRA]A1
Total	20.00	20.0	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has assessed the consolidated financial risk profile of the House of Anita Dongre Private Limited (HOADPL) because of the strong operational and financial linkages between HOADPL and its subsidiary, Ochre and Black Private Limited (OBPL). There is also a corporate guarantee by HOADPL to OBPL's bank loans.

The rating action factors in the company's weak performance in Q1 FY2021 on account of the nationwide lockdown following the outbreak of Covid-19 pandemic and modest sales traction across markets where its stores have opened up. In ICRA's view, significant presence in metros where the pandemic has been rampant has constrained HOADPL's revenues. Furthermore, challenges of weak macro-economic environment translating to lower discretionary spends and potential change in consumer behaviour towards visiting public places due to the ongoing pandemic are likely to maintain pressure on its operating performance. Given the expected reduction in scale by around 30-35% in FY2021, its profitability will be adversely impacted as fixed overhead costs remain high relative to sales. Moreover, these companies resort to generating liquidity by pushing higher discounts. Turnaround in operating performance, supported by easing of restrictions, will be crucial to ramp up revenues during the vital festival season from August 2020 to Q3 FY2021 and arrest further deterioration in the company's credit profile and liquidity position.

Nevertheless, ICRA draws comfort from the Group's adequate liquidity at present with the Rs. 20-crore term loan availed recently to fund its near-term fixed cost obligations. Furthermore, the company's liquidity is expected to be supported by release of its Rs. 16.5-crore encumbered mutual funds, which are at present pledged as security, in August 2020. ICRA takes comfort from the stance of its private equity investor to bring in additional funds through equity or subordinated debt, if the need arises. ICRA notes the invocation of the force majeure clause by most retailers, including the Group, resulting in waiver of lease rentals during the lockdown period. Furthermore, HOADPL has been able to renegotiate downwards its fixed rentals with high street stores and malls in the markets which have opened. However, the ability to convert the rental arrangements with malls to a variable model (as a percentage of revenues) will be crucial from the profitability perspective. Additionally, pruning of fixed overhead costs (including employee costs) will be essential to maintain adequate liquidity.

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

The Group's operating performance remained tepid in FY2020, attributable to macro-economic challenges, stiff competition and product-specific issues faced by the company. It faces intense competition in the women's wear market with greater penetration of various foreign brands such as Zara and H&M, proliferation of private labels and other national, regional and local brands, leading to price competition and a higher discounting trend in the industry. The high operating leverage (fixed rental and employee costs) has led to under-absorption of overhead costs and pressure on its operating profitability, which was partly offset by focus on cost rationalisation in FY2020. Moreover, slow revenue growth and lockdown towards the end of March 2020 contributed to the increase in its working capital intensity.

The ratings, nevertheless, favourably factor in the Group's experienced promoter and management team, established brands and diversified presence in the women's wear segment. The Group's adequate financial risk profile is characterised by moderate debt levels and reasonable debt protection metrics. The promoters have vast experience in the fashion industry with expertise in designing, production and marketing, aided by a sound management team. The Group has established brands in the mass premium category with a 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% of its 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.

Key rating drivers and their description

Credit strengths

Vast experience of promoters and management team in fashion industry – The promoters have vast experience in the industry with Ms. Anita Dongre overseeing the design aspect for the Group and the other two promoters overseeing the other major functions. They are ably supported by a sound management team heading critical functions. To further professionalise the company and bring in external inputs, HOADPL, in April 2019, 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 such as AND and Global Desi – The Group has an established presence in the organised women's wear segment with its western wear brand, AND (introduced in 1999) and its fusion wear brand, Global Desi (started in 2009). Both brands have enjoyed successful runs in their respective segments. The two contribute to approximately 81% of the Group's revenues, with the balance being generated by its high-end luxury fashion labels, 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.

Conservative capital structure – The Group is adequately capitalised, having received Rs. 100.0-crore equity infusion from General Atlantic in FY2014. Further, it has moderate debt levels and consequently reasonable debt protection metrics (capital structure of 0.14 times, total debt/OPBITDA of 1.3 times and interest coverage of 8.8 times as per FY2020 provisional numbers).

Credit challenges

Adverse impact on revenues and consequently operating profitability given the loss of sales in Q1 FY2021, slow sales traction, overall weak macro-economic scenario and heightened competitive intensity –The company has a high operating leverage (fixed rentals and employee costs) and any sharp reduction in revenue results in significant pressure on its profitability. The nationwide lockdown imposed to contain the Covid-19 pandemic and modest sales traction across markets, where its stores have opened up, resulted in a weak performance in Q1 FY2010. In ICRA's view, significant presence in metros where the pandemic has been rampant has constrained HOADPL's revenues. Furthermore, challenges of a weak macro-economic environment translating to lower discretionary spends and potential change in consumer behaviour towards visiting public places due to the ongoing pandemic is expected to maintain pressure on the

company's operating performance. Given the likely reduction in scale by around 30-35% in FY2021, its profitability will be adversely impacted amid high fixed overhead costs relative to sales. Moreover, these companies resort to generating liquidity by pushing higher discounts. Turnaround in operating performance supported by easing of restrictions will be crucial to ramp up revenues during the festival season from August 2020 to Q3 FY2021 and arrest further deterioration in the company's credit profile and liquidity position.

Vulnerability of sales to macro-economic scenario and changing consumer preferences; working capital intensity expected to remain high – The Group's sales remain vulnerable to the macro-economic scenario, the changing tastes and preferences of consumers, which vary across regions and fashion trends that change fast. HOADPL's inventory, a key parameter for the industry, remains susceptible to markdowns in case of a sharp demand slowdown and slower sales that could lead to a higher working capital intensity. The anticipated contraction in gross domestic product (GDP), following the lockdown, is likely to substantially reduce discretionary spending, impacting the Group's revenues and putting pressure on its working capital intensity.

Competition from various established global, national, regional and local brands – The Group faces stiff competition in the women's wear market from various foreign brands, such as Zara and H&M, proliferation of private labels, along with national, regional and local brands. Apart from the reduction in discretionary spending by consumers, this has led to price competition and higher discounting trends in the industry, which has impacted the Group's profitability.

Liquidity position: Adequate

With strict lockdown in Q1 FY2021 across major metros, the company's sales were adversely impacted. Though rental costs were waived off during the lockdown period, it had to bear the employee costs during the period, which reduced its liquidity buffer. The company has availed a Rs. 20-crore loan from its bankers, which is likely to ease its near-term liquidity. Further, freeing up of Rs. 16.5-crore mutual funds currently pledged as security with the bank by August 2020 will support its liquidity. Nevertheless, the pace of demand recovery post easing of restrictions in its important markets of metros from August 2020 onwards will be crucial to ramp up sales and arrest the decline in its liquidity position. HOADPL's ability to continually reduce fixed costs will remain crucial to conserve cash. ICRA draws comfort from the stance of its private equity investor to bring in additional funds through equity or subordinated debt, if the need arises.

Rating sensitivities

Positive triggers – Given the Negative outlook, an upgrade in the ratings is unlikely in the near term. However, the outlook may be revised to Stable if there is a strong recovery in volumes and earnings in the coming quarters and if the working capital intensity reduces, which would consequently result in an improvement in the Group's credit metrics and liquidity position.

Negative triggers – Downward pressure on HOADPL's rating could emerge if there is sustained pressure on the company's earnings and liquidity in the coming quarters– due to continued intermittent lockdowns and reduction in discretionary spending on account of a weak demand environment -significantly impairing its debt servicing ability.

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 HOADPL's consolidated financial profile.

About the company

HOADPL is in the business of designing, manufacturing and retailing apparel. In July 2015, the Group was renamed as House of Anita Dongre Limited from AND Designs India Limited, and was converted into a private limited company with effect from January 02, 2020. On March 28, 2019, the board of HOADPL, as a 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. HOADPL will continue to manage the two high-end brands, Anita Dongre and Grassroot.

The HOADPL 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, Anita Dongre and Grassroot, the latter being 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 across tier-I, II and III cities as well as emerging towns in India.

Key financial indicators

	FY2018	FY2019
	Audited	Audited
Operating Income (Rs. crore)	479.0	512.3
PAT (Rs. crore)	7.9	-1.4
OPBDIT/OI (%)	8.2%	5.2%
PAT/OI (%)	1.6%	-0.3%
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

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
				July 31 2020	May 18 2020	September 27 2019	July 29 2019	April 27 2018	June 15 2017
1	Long-term fund-based limits	0.00	-	-	[ICRA]A (Negative) outstanding	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+; Outlook revised to Stable from Positive
2	Long-term/short-term fund based limits	10.00	-	[ICRA]A-/Negative/A2+	[ICRA]A/Negative/A1 outstanding	[ICRA]A/Negative/A1	[ICRA]A+/Stable/A1+	-	-
3	Long-term/short-term Unallocated	10.00	-	[ICRA]A-/Negative/A2+	[ICRA]A/Negative/A1 outstanding	[ICRA]A/Negative/A1	[ICRA]A+/Stable/A1+	[ICRA]A+/Stable/A1+	[ICRA]A+/A1+; Outlook revised to Stable from Positive

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/short-term fund-based limits	-	NA	NA	10.00	[ICRA]A- /Negative/A2+
NA	Long-term/short-term Unallocated	-	NA	NA	10.00	[ICRA]A- /Negative/A2+

Source: HOADL

Annexure-2: List of entities considered for consolidated analysis

Group Name	Ownership	Consolidation Approach
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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