

August 19, 2021 (Revised)

Modenik Lifestyle Private Limited (Formerly known as Dixcy Textiles Private Limited): Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working capital facility	155.00	155.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Unallocated facility	-	45.00	[ICRA]A+(Stable)/[ICRA]A1+; assigned
Total	155.00	200.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA takes note of the amalgamation of Gokaldas Intimatewear Private Limited (GIPL) and Hinduja Investments Private Limited (HIPL) with Modenik Lifestyle Private Limited (MLPL, formerly known as Dixcy Textiles Private Limited) on September 16, 2019, pursuant to the NCLT order in May 2021. As part of the scheme, MLPL has issued compulsorily convertible debentures to the tune of Rs. 330.0 crore to the promoters of GIPL (also the promoters of MLPL). The ratings reaffirmation reflects the expected steady operational and financial performance of MLPL over the medium term, on the back of its established market position in the branded innerwear industry and its comfortable financial profile, characterised by a conservative capital structure, adequate credit metrics and comfortable liquidity position. The company's performance in FY2021 remained largely stable, despite the pandemic-induced disruptions witnessed in the first half of the fiscal, supported by the recovery in demand and profitability in the subsequent quarters of the fiscal. While MLPL's revenues had registered a moderate decline in FY2021, limited by the Q1FY2021 performance, the operating margin improved on the back of cost control measures adopted by the company. However, the margins at the net level were impacted by the one-time expenses on various initiatives. With expected steady growth in volumes across key brands and better price realisations, MLPL is likely to witness revenue growth upwards of 10% in FY2022 despite temporary business disruptions faced in the first quarter on the back of state-wide lockdowns owing to second wave of the pandemic. Further, pursuant to the amalgamation of MIPL, the operating margin is expected to improve with the increase in revenue contribution of the premium segment and the likely synergies arising from the merger which is expected to result in sizeable cost savings. ICRA expects MLPL's operating margins and the return on capital employed to improve to around 10% and 20%, respectively, in FY2022, aided by improving operating efficiencies and asset-light operations.

The ratings also consider the comfortable financial profile, characterised by low dependence on external debt and adequate coverage metrics and liquidity position, despite the high working capital requirements in the business. While the company was debt-free in the past few quarters, supported by steady earnings and limited funding requirements, the expected increase in working capital requirements, moderate capital expenditure envisaged and the payout of accrued interest of Rs. 45.0 crore (for H2 FY2020 and FY2021) towards the CCDs issued are likely to increase the utilisation of working capital debt levels. Nevertheless, dependence on external debt levels is expected to remain limited, supported by the growth in earnings and focused initiatives undertaken to reduce the working capital intensity. MLPL's coverage metrics have moderated from the strong levels seen in the past because of the 9.25% interest being paid on the CCDs issued. Supported by the expected growth in earnings from operations, interest coverage is likely to improve to around 3.5 times in the near term and to around 4.0 times by the next fiscal. Further, ICRA understands that the cash outflow towards CCD interest payout will be made only at the end of the fiscal after meeting all the operational requirements and financial debt obligations for the fiscal, which lend comfort.

Further, the liquidity position remains comfortable supported by the expected steady cash accruals and the adequate unutilised lines of credit. The ratings also factor in the intense competition in the fragmented domestic innerwear market, which limits MLPLs pricing flexibility and exposes its earnings to fluctuations in yarn prices as witnessed in the recent quarters.

The Stable outlook reflects ICRA's expectation that the operational and financial performance of the company will continue to benefit from its long track record of operations, established brands, strong pan-India distribution network and comfortable capitalisation levels

Key rating drivers and their description

Credit strengths

Established presence and strong market position of the brands in the domestic market: MLPL enjoys an established presence in the domestic innerwear industry, with presence across various segments including economy, mid-premium and premium segments under the brands – Enamor, Josh, Dixcy, Scott, Uno and Slimz. MLPL has an established pan-India distribution network of 1400 distributors. Supported by the strong distribution network and the healthy brand recall in the non-south markets, MLPL has achieved a healthy market position in the mid-premium innerwear segment in the domestic market; however, continuous marketing/ brand building efforts are required to sustain and grow volumes.

Wide product portfolio: MLPL's business diversification has improved over the years, with growing revenue contribution from the causal-wear segment. In addition to the presence of various brands across price points in the men's innerwear segment, the addition of enamor brand (sizeable home-grown women's lingerie brand in India under the premium segment) to its portfolio is likely to support margin expansion over the medium-term. Besides, consistent growth witnessed by the organised players, supported by India's favourable demographic profile with increasing shift towards branded products, is expected to drive volumes over the medium term.

Comfortable financial profile: MLPL's capital structure and liquidity position remain comfortable, supported by the steady cash accruals and adequate unutilised lines of credit. Its gearing and total outside liabilities to tangible net worth have improved over the years, given its asset-light business model and limited dependence on external debt for funding its working capital requirements. While the coverage indicators have moderated in recent fiscals after factoring in the interest costs for the CCDs issued, expected improvement in earnings and consequently coverage metrics and no long-term debt repayment obligations add comfort.

Credit challenges

Moderate operating profitability– Higher revenue concentration in the mid premium segment and the high marketing spends incurred over the years have resulted in moderate operating profit margins for the company. Further, intense competition across segments from other large, branded players and the wide unorganised segment limit the pricing flexibility and expose the earnings to fluctuations in yarn prices as seen in the past. The extent of margin improvement over the medium term will depend on the successful ramping up of the women's innerwear segment and synergy benefits arising from the recent merger.

High working capital requirements - The industry is characterised by high working capital requirements to support stock holding across a wide product range. Moreover, the company must extend moderate credit to its partners along the supply chain. Stock levels increase in the second half of the fiscal to meet the high demand for innerwear during the summer season and reduce gradually between February and July with liquidation of inventory (stock levels also rise to an extent in the second quarter for the ensuing winter season). Despite the same, lower-than-industry working capital intensity (supported by favourable credit terms enjoyed from the suppliers) and its comfortable liquidity position provide comfort.

Liquidity position: Adequate

MLPL's liquidity position is expected to remain adequate, supported by the growth in earnings from operations and adequate unutilised lines of credit. The average working capital utilisation levels was at around 35% in the past twelve months ended July 2021. Further, the company does not have any term debt repayment amidst moderate capital expenditure envisaged in the near-term. The company is likely to generate cash accruals of more than Rs. 60.0 crore per annum as against combined capital expenditure plans of less than Rs. 75.0 crore over the next three fiscals. The surplus earnings post meeting the capital expenditure requirements, coupled with the unutilised lines of credit, will remain adequate to meet any significant rise in working capital requirements over the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a significant growth in scale of operations and earnings supported by enhanced product/brand portfolio and/or geographical presence. Moreover, an increase in market share while sustaining the comfortable capital structure and liquidity position will be a credit positive. Key credit metrics, which could trigger an upgrade, include interest coverage above 7.0 times on a sustained basis.

Negative factors – ICRA could downgrade the ratings if there is a sustained pressure on the operating performance, or any increase in working capital cycle or any large debt-funded capital expenditure adversely impacts the credit metrics and liquidity position of the company. Key credit metrics which could trigger a downgrade include TOL/ TNW increasing to above 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Credit Rating Methodology Rating Methodology for Entities in the Textile Industry - Apparel
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the combined financial statements of MLPL, GIPL and HIPL given the recent amalgamation of GIPL and HIPL with MLPL

About the company

MLPL is involved in manufacturing and marketing of innerwear garments for men, women and kids. The company also makes casual wear, night wear and thermo / winter wear. Its products are sold in the domestic market under the brand names Dixcy, Josh, Scott, UNO and Enamor. That apart, it has licensing agreement for manufacturing and marketing men's undergarments under the Levis brand. In September 2017, Advent International Corporation (Advent), a global private equity investor, acquired a significant ownership interest (60%) in the company through its subsidiary Varena Holding Limited and had increased its ownership to 100% in October 2019 by buying out the shareholding of its erstwhile promoter - Mr. Prem Prakash Sikka (Promoter) and his family. Mr. Sunil Sethi is the Managing Director and Chief Executive Officer.

Key financial indicators (audited)

MLPL and GIPL	FY2019*	FY2020*
Operating Income (Rs. crore)	1,293.7	1,294.1
PAT (Rs. crore)	47.1	19.5
OPBDIT/OI (%)	7.9%	6.3%
RoCE (%)	24.3%	14.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.2
Total Debt/OPBDIT (times)	1.6	1.3
Interest Coverage (times)	6.2	2.6
DSCR (times)	3.5	1.9

Source: Company

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year) ; * represents combined financial statements of MLPL, GIPL and HIPL given the recent amalgamation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
				Aug 19, 2021	Nov 11, 2020	Mar 05, 2020	Jan 07, 2019	Jun 22, 2018	
1 Cash Credit	Long/Short term	155.00	0.0	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	
2 Unallocated	Long/Short term	45.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-	

Source: Company

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

Instrument	Complexity Indicator
Fund-based Working capital limits	Simple
Unallocated limits	Not applicable

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	155.00	[ICRA]A+(Stable)/ [ICRA]A1+
NA	Unallocated facility	-	-	-	45.00	[ICRA]A+(Stable)/ [ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
-	-	-

Source: Company

Corrigendum

The press release dated August 19, 2021 has been revised. The name of the company was changed from Dixcy Textiles Private Limited to Modenik Lifestyle Private Limited in July 2021 and is being updated in the ICRA rationale via this release.

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