June 15, 2022

Cantabil Retail India Ltd.: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	47.00	47.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short-term Non-fund based – Letter of Credit	5.00	5.00	[ICRA]A2+; upgraded from [ICRA]A2
Long-term/ Short -term – Unallocated Limits	8.00	8.00	[ICRA]A- (Stable)/[ICRA]A2+; upgraded from [ICRA]BBB+ (Stable)/[ICRA]A2
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade considers the strong improvement in the operating and financial performance of Cantabil Retail India Ltd. (CRIL) in FY2022 and ICRA's expectations of a sustained growth in CRIL's revenues and margins over the medium term. CRIL's operating income grew 52.2% YoY to Rs. 383 crore with a 550 bps expansion in operating profitability to 29.1%. This was fuelled, in part, by healthy recovery in customer footfalls and revenue per store due to waning impact of the pandemic in the light of the rapid pace of vaccinations along with a store expansion push. The company's retail presence expanded by 58 stores during the year with 378 exclusive brand outlets (EBOs) as on March 31, 2022 (including 108 franchises).

The ratings continue to favourably consider the substantial experience of CRIL's promoters in the textile industry and the established brand presence of its flagship brand 'Cantabil' in the value-for-money men's wear segment, particularly in north and west India. The ratings also derive comfort from the asset light business model of the company through a combination of in-house and outsourced manufacturing along with 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 in the face of rapidly changing fashion trends and consumer preferences. The ratings also factor in the vulnerability of the business to adverse market conditions due to factors including, but not limited to, re-emergence of the pandemic-induced business restrictions and intense competition in the highly fragmented apparel retail industry.

The stable outlook on the long-term rating reflects ICRA's expectations that the company will continue to benefit from its promoters' experience and established flagship brand while maintaining a healthy capital structure and comfortable liquidity.

Key rating drivers and their description

Credit strengths

Established market position in the men's wear segment and expanding distribution network into Tier-II and Tier-III cities - The company's flagship brand 'Cantabil' has an established presence in the domestic apparel market through its wide portfolio of apparel and apparel accessories for men, women and children in the mid-range category. This is supported by CRIL's pan-India distribution network comprising 378 Exclusive Brand Outlets (EBOs), including 108 franchised EBOs and six outright stores as on March 31, 2022. The company has plans to aggressively expand its retail footprint over the next 3-4 years and is targeting smaller cities due to the vast untapped potential. ICRA expects the company to continue to benefit from its healthy brand recall and increase in retail presence over the medium term.

High degree of operating flexibility due to asset light business model – CRIL operates with an asset light model wherein only about 1/3rd of the apparels are manufactured in-house at its fully integrated facility in Bahadurgarh. The company sources another 1/3rd of its requirements from dedicated job workers and the balance ~1/3rd is purchased on an FOB basis directly from manufacturers. Designing and product development is managed in-house to keep control over styling. This limited dependence on in-house manufacturing gives CRIL enhanced operating flexibility.

Comfortable capital structure and healthy debt protection metrics – CRIL's financial profile is characterised by a conservative capital structure with healthy credit metrics. As on March 31, 2022, it had no financial repayment obligations and has been relying on internal accruals to fund its capital expenditure. Its debt profile consists only of working capital lines and lease liabilities on its stores. The reported gearing stood at 1.5 times as on March 31, 2022 and 1.9 times as on March 31, 2021. However, on a lease adjusted basis, the company remained debt free. Reported interest cover stood 4.7 times in FY2022 against 2.4 times in FY2021. On a lease adjusted basis, interest cover improved to 22.8 times in FY2022 from 7.2 times in FY2021. ICRA expects CRIL's reliance on external debt to remain low over the medium term.

Experienced promoters and management team – CRIL was founded by Mr. Vijay Bansal and his family members in 1989 in New Delhi. The promoters of the company have an established track record in the apparels industry and are supported by a team of technically qualified and experienced professionals.

Credit challenges

High working capital intensity of operations – CRIL's business is working capital intensive with high inventory holding requirements for its existing as well as new stores. Apart from the increased funding requirements, large inventory translates into higher risk of obsolescence due to fast changing fashion trends which in turn translates into higher discounting, impacting margins. The inventory has remained high in the range of 200-250 days over the last three years and is expected to remain high due to the aggressive store expansion planned by the company. Going forward, the company's ability to manage its inventory levels, while targeting growth, will remain a key monitorable.

High brand, segment and geographical concentration risks – While CRIL has expanded its product portfolio over the years to offer a complete range of apparels for the entire family, it continues to be dependent on the men's wear category for over 85% of its operating income. Further, the company operates under a single brand 'Cantabil' which exposes it to significant brand concentration risk. Geographically, north and west India contribute ~90% of CRIL's revenue with north India along accounting for 56% of revenue in FY2022 which exposes the company to geographical concentration risks. However, geographical concentration has reduced over the last 3 years with increase in the share of west India and is expected to improve further over the medium term.

Exposure to consumer preferences and spending trends – 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. Any deterioration in the macro-economic environment, including business disruptions due to further waves of the pandemic, may have a material impact on the financial profile of the company. Besides, its sales remain vulnerable to fast-changing consumer preferences and fashion trends, which increase the risks of inventory markdowns, impacting overall business profitability. However, the company's apparel not being positioned in the fast fashion category mitigates the risk to some extent.

Intense competition in the apparel retail industry – The apparel retail market is highly competitive with the presence of various branded and unbranded players. The company faces stiff competition from foreign brands which are rapidly expanding their footprints in the country, along with the plethora of national, regional and local brands. This leads to intense price competition and higher discounting to maintain market share which may impact the company's profitability.

Liquidity position: Adequate

CRIL's liquidity remains adequate, characterised by free cash and unutilised working capital facilities (with commensurate drawing power) worth ~Rs. 50 crore as on March 31, 2022. The company does not have any term debt repayment obligations. CRIL has a growth capex plan of ~Rs. 35 crore per annum over the next 2-3 years against which it is expected to generate cash flow from operations of ~Rs. 25-30 crore in FY2023 and ~Rs. 50-70 crore per annum thereafter. ICRA also derives comfort from the low average utilisation of sanctioned working capital facilities at ~18% in FY2022 which provides a liquidity buffer.

Rating sensitivities

Positive factors – ICRA could upgrade CRIL's ratings in case of a sustained improvement in its revenue and profitability with efficient working capital management while maintaining a comfortable liquidity profile. Higher geographic diversification of revenue may also support a rating upgrade.

Negative factors – Pressure on CRIL's ratings could emerge if a decline in revenue and/or profitability of the company or a stretch in working capital cycle materially impacts the company's liquidity profile. Any large unanticipated debt-funded capex or inorganic growth could also result in a rating downgrade. Specific credit metrics that could result in a rating downgrade include interest cover below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile 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 Ltd. (CRIL) is engaged in the designing, manufacturing, branding and retailing of branded apparel and accessories for men, ladies and kids in the economy to mid-range segments through a pan-India network of exclusive bran outlets (EBOs) under the flagship brand 'Cantabil'. As on March 31, 2022, CRIL's retail presence spanned 378 EBOs comprising 270 company-owned stores and 108 franchises. The company operates a fully integrated manufacturing facility in Bahadurgarh, Haryana with an annual installed capacity of ~10 lakh pieces per annum.

The company was originally 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 India Private Limited in March 2009 and was listed on the Bombay Stock Exchange and National Stock Exchange of India in October 2010.

Key financial indicators (audited)[1]

Cantabil Retail India Ltd.	FY2021	FY2022
Operating Income (Rs. crore)	251.9	383.4
PAT (Rs. crore)	9.7	38.1
OPBDIT/OI (%)	23.6%	29.1%
PAT/OI (%)	3.8%	9.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.0
Total Debt/OPBDIT (times)	4.0	2.2
Interest Coverage (times)	2.4	4.7

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	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 15, 2022	Jul 26, 2021	Jun 01, 2020	-
1	Cash Credit	Long-term	47.00	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-
2	Term Loans	Long-term	-	-	-	-	[ICRA]BBB+(Stable)	-
3	Letter of Credit	Short-term	5.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-
4	Unallocated Limits	Long-term/ Short-term	8.00	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short-term Fund-based – Letter of Credit	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, is available on ICRA's website: www.icra.in

[1] *The figures are as per the reported financial statements (post adoption of IndAS 116). As on March 31, 2022, the outstanding debt consists only of lease liabilities.*

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash Credit	NA	NA	NA	47.00	[ICRA]A-(Stable)
-	Letter of Credit	NA	NA	NA	5.00	[ICRA]A2+
-	Unallocated Limits	NA	NA	NA	8.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – N.A.

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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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