July 20, 2023

# Cantabil Retail India Ltd.: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term Fund-based – Working Capital Facilities** | 47.00 | 57.50 | [ICRA]A-(Stable); reaffirmed |
| **Short-term – Non Fund-Based Facilities** | 5.00 | 2.00 | [ICRA]A2+; reaffirmed |
| **Long-term/short-term – Unallocated Limits** | 8.00 | 15.50 | [ICRA]A-(Stable)/[ICRA]A2+; reaffirmed/assigned |
| **Total** | **60.00** | **75.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings reaffirmation reflects the healthy operational and financial performances of Cantabil Retail India Limited (CRIL) in FY2023 on the back of an improvement in store footfalls and ICRA's expectations of steady performance over the medium term, aided by planned store addition and increasing brand awareness. CRIL's operating income surged ~44% YoY to more than Rs. 550 crore in FY2023 amid a 36% YoY growth in sales volume (across product categories). CRIL's operating margin stood at 30% in FY2023, aided by economies of scale and an increase in the blended average realisations by ~10% YoY, reflecting the company's ability to pass on the higher raw material costs to its customers. The company added 69 stores (including 21 franchised stores) during the year, taking the year-end store count to 447 stores, with presence across the country. Going forward, ICRA expects the company to record a healthy revenue growth of more than 15% YoY over the medium term, while sustaining its operating margins. While business is expected to be supported by planned store expansion, likely moderation in average realisations, evolving discretionary spending patterns amid high inflation and a high base of FY2023 could have a bearing on the company's performance in the near term. Nevertheless, CRIL's financial risk profile is expected to remain comfortable with low reliance on external debt (except lease liabilities) and steady cash flow from operations. ICRA expects CRIL to maintain a healthy interest cover of more than 5.5 times and a gearing of less than 1.5 times over the medium term.

The ratings continue to favourably factor in the established brand presence of its flagship brand, Cantabil, in the value-for-money men's wear segment, particularly in North and West India, and the pan-India distribution network comprising 447 exclusive brand outlets (EBOs) as on March 31, 2023. The ratings 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 amid the rapidly changing fashion trends and consumer preferences. The ratings also consider the high brand concentration risk and the vulnerability of revenue and earnings to adverse market conditions and intense competition in the highly fragmented apparel retail industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that CRIL will continue to maintain a comfortable financial risk profile on the back of a steady growth in earnings over the medium term.

## Key rating drivers and their description

### Credit strengths

**Established market position in the men's wear segment and expanding retail network in tier II and tier III cities –** The company's flagship brand, Cantabil, has an established presence in the domestic apparel market, offering a wide product portfolio across men's wear, women's wear, kids' wear and accessories. Men's wear continues to dominate CRIL's revenue mix, contributing more than 80% to the revenues in FY2023, due to its long presence in the segment. Nevertheless, the other product categories have recorded a steady increase in revenue contribution. CRIL operated a pan-India retail network of 447 EBOs, including 130 franchised stores, as on March 31, 2023, with Rajasthan, Uttar Pradesh, Maharashtra, Delhi and Haryana accounting for more than 10% of the stores each. The company plans to aggressively expand its retail network over the coming years, with a focus on tier II and III cities to serve the young customers and benefit from relatively lower competition. ICRA expects the increasing retail presence and expanding brand awareness to benefit the company over the medium term.

**Comfortable capital structure and healthy debt coverage metrics; robust financial performance in FY2023 –** CRIL recorded a healthy financial performance in FY2023 with ~44% YoY revenue growth and ~30% operating profit margin, supported by recovery in store footfalls, on a low base of Q1 FY2022 which was impacted by the pandemic, a steady increase in average realisations and planned store addition, translating into healthy cash flow from operations. The company's financial risk profile benefits from its low reliance on external debt for financial working capital and no term debt repayment obligations. While the gearing stood at a moderate level of 1.3 times as on March 31, 2023, the major portion of the debt is in the form of lease liabilities. CRIL's debt coverage indicators are expected to remain healthy with an interest cover of more than 5.5 times over the medium term.

**Asset-light business model allows greater operating flexibility –** CRIL operates with an asset-light business model wherein about 1/3rd of the apparels is manufactured in-house. The company sources another 1/3rd of its requirements from dedicated fabricators and the balance is purchased directly from third-party manufacturers on a free-on-board (FOB) basis. Designing and product development are managed in-house to keep control over styling. CRIL's business model allows greater operating flexibility by keeping fixed costs under check.

**Extensive experience of promoters and management –** CRIL was founded in 1989 by Mr. Vijay Bansal and his family members who have a long track record and experience in the textile industry. The promoters are supported by a team of technically qualified and experienced professionals. These are likely to aid the company in understanding customer preferences and maintaining a sustainable supply chain over the medium term.

### Credit challenges

**High working capital intensity of operations due to large inventory holding requirement and planned store addition –** CRIL's business is working capital intensive with sizeable inventory holding requirements for existing as well as new stores, reflected in the net working capital to operating income (NWC/OI) ratio of ~30% in FY2023. Apart from increased funding requirements, a large inventory exposes the company to the risk of obsolescence, which could impact its margins. The inventory levels have remained elevated at ~250 days over the last two years and are likely to remain high amid plans of store additions over the coming years. The company's ability to manage its inventory levels, while targeting growth, remains a key monitorable.

**High brand, product and geographical concentration of revenue; likely to improve over the medium-to-long term –** CRIL's revenues demonstrate high concentration risks with a single brand name, dependence on men's wear, which accounts for more than 80% of the annual revenue and high, although reducing, concentration of revenue in North India. Nevertheless, ICRA notes that the geographical diversification of revenue is likely to record a sustained improvement in the coming years. Further, the management is taking initiatives to diversify its product mix through opening of larger full family stores and launching new products under accessories and athleisure segments, which are likely to bear fruit over the medium-to-long term.

**Exposure to intense competition, changing consumer preferences and evolving discretionary spending trends –** The apparel retail market is very competitive with the presence of various branded and unbranded players. Aggressive expansion by other domestic and foreign branded apparel retailers are likely to further increase the industry competition, even in tier II and tier III markets, which could impact the company's growth and profitability. CRIL also remains vulnerable to changing consumer preferences and fashion trends, which increase the risks of inventory markdowns. However, the company's apparels not positioned in the fast-fashion category mitigate the risk to an extent. Further, any deterioration in the overall macro-economic environment, translating into subdued discretionary spending by consumers could impact CRIL's growth plans.

## Environmental and social risks

**Environmental considerations –** Overall exposure to environmental risks remains low for apparel retailers. Increase in raw material costs, mainly for cotton, which is a water-intensive crop whose production is dependent on rainfall, could impact the margins of CRIL. Moreover, any tightening of waste control norms could necessitate significant capital expenditure by the company, affecting its financial profile and liquidity.

**Social considerations –** CRIL is exposed to the risk of business disruptions due to inability to properly manage human capital in terms of their safety and overall well-being. Any significant increase in wage rates may adversely impact the cost structure of apparel retailers, impacting their margins. Besides, human rights violations could pose risks for the company. As a retailer, CRIL is also subject to other social factors including responsible sourcing, product and supply chain sustainability, given high reliance on external suppliers. The company also remains exposed to any major shift in consumer preferences or developments affecting discretionary spending patterns in key markets.

## Liquidity position: Adequate

CRIL's liquidity remains adequate, characterised by free cash and buffer from undrawn working capital limits worth ~Rs. 35 crore as on March 31, 2023. ICRA expects the company to generate cash flow from operations worth Rs. 80-100 crore p.a. over the next 1-2 years. Against this, it has planned capital expenditure requirement of Rs. 40-45 crore p.a. towards store addition and construction of a new warehouse. While the company does not have any term debt repayment obligation, it has financial lease repayment liability worth Rs. 40-50 crore p.a. ICRA also draws comfort from the moderate average utilisation of sanctioned working capital limits, which stood at 54% (with commensurate drawing power) in FY2023 and the increase in sanctioned limits by Rs. 10.5 crore during the year, which provide a healthy buffer.

## Rating sensitivities

**Positive factors –** ICRA could upgrade the ratings in case of a sustained improvement in its revenue and profitability with efficient working capital management while maintaining a comfortable liquidity profile. Improving geographical diversification of revenue may also support ratings upgrade.

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

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology – Textiles (Apparels) |
| **Parent/Group support** | Not Applicable |

| Analytical Approach | Comments |
| --- | --- |
| Consolidation/Standalone | Standalone |

## About the company

Cantabil Retail India Limited (CRIL) is involved in designing, manufacturing, branding and retailing of branded apparel and accessories for men, women and kids in the economy to mid-range price segments through a pan-India network of exclusive brand outlets (EBOs) under the flagship brand, Cantabil. As on March 31, 2023, CRIL operated 447 EBOs, including 130 franchised stores. The company also operates a fully integrated manufacturing facility in Bahadurgarh, Haryana with an installed capacity of ~1.5 million pieces per year.

The company was 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 Private Limited in March 2009 and was listed on BSE and NSE in October 2010.

### Key financial indicators (audited)

| | FY2022 | FY2023 |
| --- | --- | --- |
| Operating income | 383 | 552 |
| PAT | 38 | 67 |
| OPBDIT/OI | 29.1% | 30.1% |
| PAT/OI | 9.9% | 12.2% |
| Total outside liabilities/Tangible net worth (times) | 2.0 | 1.7 |
| Total debt/OPBDIT (times) | 2.2 | 1.7 |
| Interest coverage (times) | 4.7 | 5.9 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore*
*Note: All ratios are as per ICRA's calculations*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Jul 20, 2023 | Jun 15, 2022 | Jul 26, 2021 | Jun 01, 2020 |
| 1 | Working Capital Facilities | Long-term | 57.50 | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) |
| 2 | Term Loans | Long-term | - | - | - | - | - | [ICRA]BBB+ (Stable) |
| 3 | Non Fund-Based Facilities | Short-term | 2.00 | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 |
| 4 | Unallocated Limits | Long-term/ | 15.50 | - | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]BBB+ (Stable)/ [ICRA]A2 | [ICRA]BBB+ (Stable)/ [ICRA]A2 |

| | |
|---|---|
| | short-<br>term |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term Fund-based – Working Capital Facilities** | Simple |
| **Short-term – Non Fund-Based Facilities** | 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 are available on ICRA's website: Click Here

### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Working Capital Facilities | NA | NA | NA | 57.50 | [ICRA]A-(Stable) |
| NA | Non Fund-Based Facilities | NA | NA | NA | 2.00 | [ICRA]A2+ |
| NA | Unallocated Limits | NA | NA | NA | 15.50 | [ICRA]A-(Stable)/[ICRA]A2+ |

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure II: 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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