

November 02, 2023

## BIBA Fashion Limited: 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/Cash Credit	195.00	220.00	[ICRA]A (Positive); reaffirmed and assigned for enhanced amount
Long-term - Fund-based/Term Loan	3.44	27.57	[ICRA]A (Positive); reaffirmed and assigned for enhanced amount
Long Term / Short Term – Unallocated	1.56	2.43	[ICRA]A (Positive)/[ICRA]A2+; reaffirmed and assigned for enhanced amount
<b>Total</b>	<b>200.00</b>	<b>250.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Biba Fashion Limited (BFL) (including subsidiaries, BIBA Apparels Trading LLC, Anjuman Brand Design Private Limited and BIBA Apparels Trading LLC) and Kashida Apparels Private Limited, commonly referred to as the Group, given the close business, financial and managerial linkages among the same.

The rating action reflects ICRA's expectations of a sustained growth in the Group's revenues and profit margins over the medium term. The Group's revenue surged 39% in FY2023 to Rs. 874.8 crore along with an improvement in the operating margin as well. The Group also reported growth of 15% even over pre-covid levels of FY2020 thereby reflecting healthy demand recovery. This was driven by a healthy recovery in customer footfalls and revenue per store due to the waning impact of the pandemic, along with the push for store expansion. Although the revenue growth in FY2024 is expected to remain muted as compared to previous years, the ratings continue to draw strength from the Group's healthy operational profile, characterised by the strong presence of its flagship brand, BIBA, in the domestic ethnic wear segment for women, as well as its established pan-India multi-channel distribution network. The ratings also derive comfort from the asset-light business model of the Group with the entire manufacturing outsourced to vendors on a job-work basis. Lower contribution of in-house manufacturing operations even after KAPL commences operations, along with lower capital expenditure requirement in store expansion (given the use of leased model for self-managed stores), supports scalability in business.

However, the ratings are constrained by the significant increase in the external debt of the Group owing to high working capital requirements. This resulted in elevated leverage metrics, reflected by Total Debt/OPBDITA of 3.3 times and TOL/TNW of 2 times as on March 31, 2023. Moreover, debt coverage metrics also remained at moderate levels with interest coverage of 4.3 times as on 31<sup>st</sup> March 2023. The same are expected to remain at adequate levels going forward as well. Higher working capital intensity also resulted in higher utilisation of working capital limits, as reflected in 85-90% utilisation in the past six months against the sanctioned limits. The ratings also remain constrained by the high brand concentration risk and changing consumer preferences. The ratings also factor in the vulnerability of the business to adverse market conditions due to factors including, but not limited to, intense competition in the highly fragmented apparel retail industry.

While reaffirming the ratings, ICRA has noted that the capex, being undertaken under KAPL, exposes it to the associated project execution and operational risks, but it is likely to boost the Group's operational strengths. The unit is expected to commence operations from Q4 FY2024 and the entire production will be sold to BIBA. This is expected to cater 20% of BIBA's production requirements. The total cost of the project is Rs. 68 crore, to be funded by a term loan of Rs. 43 crore and promoter's contribution of about Rs. 25 crore. The financing risk for the project is also mitigated to a large extent as the debt requirement has been sanctioned, and BFL's internal accruals/liquid balances are likely to be adequate to fund the equity margin requirements for the project. Moreover, ICRA has noted the Group's plans for an Initial Public Offering (IPO), for which it has

filed the Draft Red Herring Prospectus (DRHP) with the Securities and Exchange Board of India (SEBI) in April 2022. The offer would comprise a fresh issue of equity shares aggregating worth Rs. 90 crore, besides the offer for sale by existing shareholders, which would provide an opportunity to the private equity investors to partially exit. Besides general corporate purposes, the company proposes to use the fresh proceeds to deleverage its balance sheet. ICRA has noted the above development and will continue to monitor the same and take appropriate rating action, as and when required.

The positive outlook on the rating reflects ICRA's expectation that the company will continue to report a sustained growth in its revenues while maintaining healthy profitability and adequate liquidity profile.

## Key rating drivers and their description

### Credit strengths

**Healthy operational profile with strong brand equity and established distribution network-** Having commenced its operations in FY2003, the Group designs and retails women's ethnic wear under its flagship brand, BIBA, which has an established presence and recall value in the domestic branded apparel market. In FY2014, the Group launched another brand in the value segment, Rangriti, to capture a wider market segment. The Group's pan-India multi-channel distribution network comprised 471 exclusive brand outlets (EBOs) and over 700 multi-brand outlets (MBOs) as on September 30, 2022. The EBOs allow the company flexibility in promotion and brand building, enabling direct engagement with customers. The MBO channel, on the other hand, helps the Group expand its geographical presence with minimal investments. Strong brand equity, together with significant online presence (through channel partners as well as through its own website) helped the Group recover at a comfortable pace following the pandemic impact.

**Adequate debt coverage metrics** – Despite an increase in debt in the recent past, range-bound and healthy profitability enabled the Group to maintain adequate debt coverage indicators. With an ongoing debt-funded capex under its subsidiary, the Group's consolidated financial leverage is increasing. Nevertheless, provision for adequate moratorium for the debt being availed in the subsidiary is expected to keep the Group's consolidated debt coverage indicators adequate, despite some moderation from the current level.

**Asset-light business model supports scalability**– The Group designs, brands and retails apparels, and follows an asset-light business model with the entire manufacturing outsourced to vendors on a job-work basis. The absence of in-house manufacturing operations, along with lower capital expenditure requirement in store expansion (given the use of leased model for self-managed stores), supports scalability in business.

### Credit challenges

**High working capital intensity** – The Group'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 translate into higher discounting, impacting the margins. The inventory has remained high in the range of 300-380 days over the last three-four years. Going forward, the Group's ability to efficiently manage its inventory levels, while targeting growth will remain a crucial determinant of its credit profile.

**High brand concentration risk** - While the Group expanded its brand portfolio by launching Rangriti in FY2014, it continues to derive 85-90% of its revenues from its flagship brand, BIBA, resulting in high brand concentration risk. However, the concentration has reduced in the recent years to 87% in FY2023 from 94% in FY2016 and is expected to decline further with sizeable expansion plans for the Rangriti brand. This is also expected to facilitate a segmental diversification for the Group as Rangriti is an economy brand, compared to the mid-to-high value segment targeted by BIBA.

**Exposed to consumer spending trends and intense competition** – The Group's sales, profitability and cash accruals, like any other apparel retailers, are closely linked to macro-economic conditions, consumer confidence and spending patterns, particularly considering the discretionary nature of its products. Besides, its sales remain vulnerable to the consumers' changing tastes and preferences, and competition from branded as well as fragmented boutique segments in the women's

ethnic wear market. Given the high proportion of fixed costs and the consistent additional advertisement expenses (to capture consumer mind share as well as wallet share), revenue fluctuations will continue to have a bearing on the profitability.

**Exposure to project risks** – The project is exposed to implementation and/or execution risks, including risks related to costs/ time overruns. Nonetheless, the funding risks have been addressed to a large extent as the debt for the project has been fully tied up, and BFL’s liquid investments/ cash accruals are expected to be adequate to fund the equity margin requirements.

Besides, the financial flexibility enjoyed by the parent entity is expected to support the contingency funding requirements, if any. The project also remains exposed to operational risks, as the Group’s ability to profitably ramp up operations after launch remains to be seen.

### Liquidity position: Adequate

The Group’s liquidity profile is adequate, with liquid balances (including free cash and bank balances and unutilised lines of credit of about Rs. 25 crore as on June 30, 2023). While the ’s working Group’s capital requirements have increased in the current fiscal, its cash flow from operations of more than Rs. 100 crores and sanctioned debt of around Rs 43 crore for Kashida apaprels are likely to be sufficient to meet the margin requirements for its working capital and capex outlays of around Rs 100 crores, as well as scheduled repayment obligations of about Rs. 10 crore in FY2024.

### Rating sensitivities

**Positive factors** - ICRA could upgrade the ratings in case of a sustained improvement in the revenues and profitability with efficient working capital management, while maintaining an adequate liquidity profile.

**Negative factors** – Pressure on the ratings could emerge if there is a sustained decline in revenues and/or profitability, or if a stretch in the working capital cycle materially impacts its liquidity profile. Any large unanticipated debt-funded capex affecting its credit metrics could also result in ratings downgrade. Specific credit metrics that could trigger ratings downgrade include an interest cover below 3 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Textile Industry Apparels</a> <a href="#">Rating Methodology- Retail</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of BIBA Fashion Limited (including subsidiaries, BIBA Apparels Trading LLC, Anjuman Brand Design Private Limited and BIBA Apparels Trading LLC) and Kashida Apparels Private Limited given the close business, financial and managerial linkages among the same.

### About the company

Biba Apparels Pvt. Ltd. was incorporated in July 2002 and is promoted by Mrs. Meena Bindra. BFL is involved in designing and retailing of ethnic wear such as salwar kameez and kurtis for women and girls in the domestic market under its brands, BIBA and Rangriti. The operations were earlier carried out in a partnership firm, Biba Apparels, since 1988 and was later converted into a private limited company in FY2003. Further, in March 2022, the company was converted into a public limited company and the name was changed to BIBA Fashion Limited.

In June 2022, BIBA has incorporated a wholly owned subsidiary, KAPL, for setting up a backward integrated manufacturing unit. The project has been set up in Indore, with an installed capacity of manufacturing 1.89 million pieces garments per annum. The total cost of the project is Rs. 68 crore, to be funded by a term loan of Rs. 43 crore (sanction in place) and

promoter's contribution of about Rs. 25 crore. The unit is expected to commence operations from Q4 FY2024 and the entire production will be sold to BIBA. This is expected to cater 20% of BIBA's production requirements.

#### Key financial indicators (audited)

BFL Consolidated	FY2022	FY2023
Operating income	629.2	874.8
PAT	12.1	53.0
OPBDIT/OI	16.9%	21.6%
PAT/OI	1.9%	6.1%
Total outside liabilities/Tangible net worth (times)	1.6	2.0
Total debt/OPBDIT (times)	4.3	3.3
Interest coverage (times)	2.5	4.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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

Any other information: None

#### Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Nov 2, 2023	Jul 07, 2023	Jun 30, 2022	Mar 25, 2021	Apr 07, 2020	
1 Long-term fund-based - Working Capital limits	Long term	220.00	-	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	-	[ICRA]A (Stable)	[ICRA]A (Negative)
2 Long-term fund-based - Term Loan	Long term	27.57	27.57	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	-	[ICRA]A (Stable)	-
3 Unallocated	Long term and short term	2.43	-	[ICRA]A (Positive)/ [ICRA]A2+	[ICRA]A (Positive)/ [ICRA]A2+	[ICRA]A (Positive)/ [ICRA]A2+	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+
4 Commercial Paper	Short term	-	-	-	-	-	-	-	[ICRA]A2+; Withdrawn

#### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based Working Capital Limits	Simple
Long-term fund-based – Term Loan	Simple
Long-term/ Short -term – Unallocated	Not Applicable

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	Cash Credit	-	-	-	220.00	[ICRA]A (Positive)
NA	Term Loans	FY2021	-	FY2029	27.57	[ICRA]A (Positive)
NA	Short-term/long-term unallocated limits	-	-	-	2.43	[ICRA]A (Positive)/[ICRA]A2+

Source: Company

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

**Annexure II: List of entities considered for consolidated analysis**

Company Name	BFL Ownership	Consolidation Approach
Kashida Apparels Private Limited	100.00%	Full Consolidation
BIBA Apparels Trading LLC	100.00%	Full Consolidation
IMA Clothing Private Limited	51.00%	Full Consolidation
Anjuman Brand Design Private Limited	36.82%	Equity method of Consolidation

Source: company

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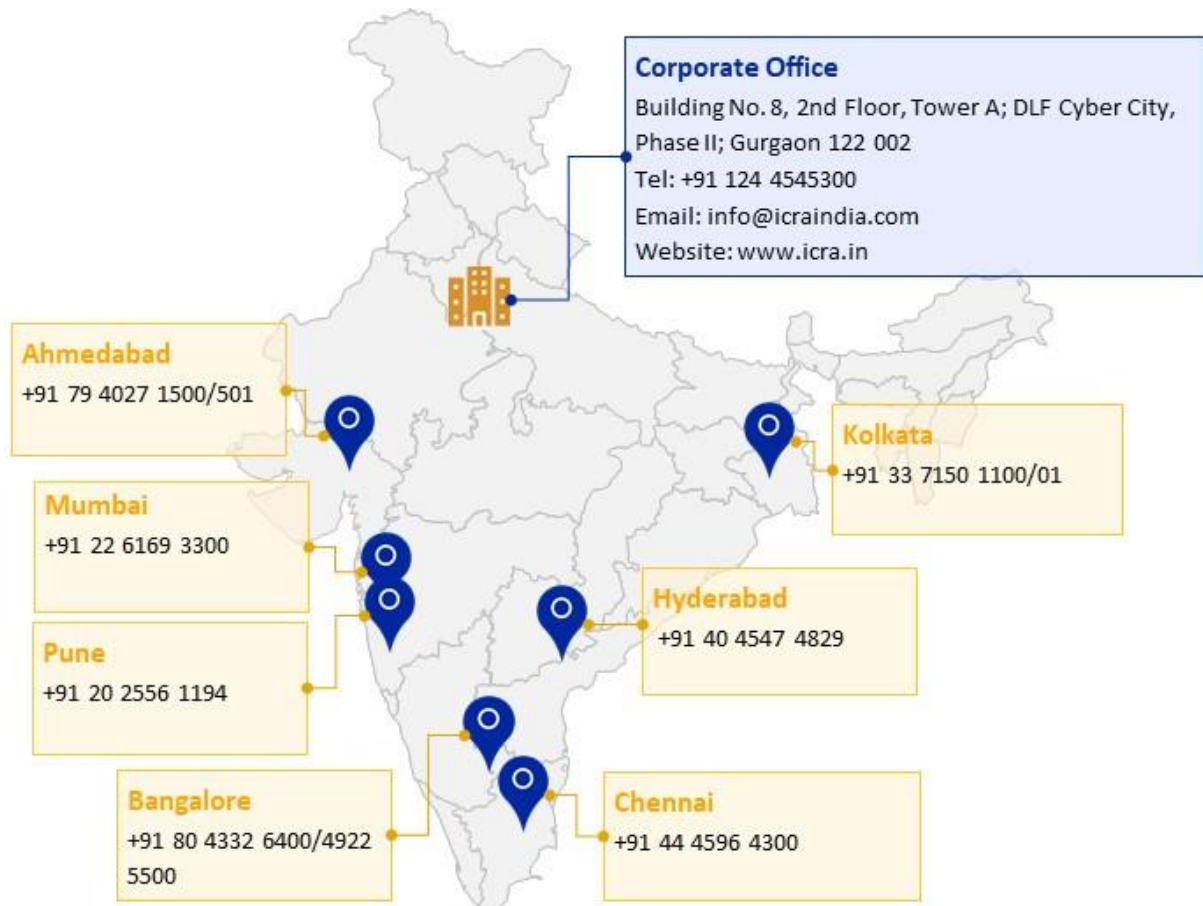
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