December 23, 2024

BIBA Fashion Limited: Long-term rating downgraded and outlook revised to Stable; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based/Cash credit	220.00	220.00	[ICRA]A-(Stable); downgraded from [ICRA]A and outlook revised from Negative
Long term - Fund-based/Term loan	25.00	25.00	[ICRA]A-(Stable); downgraded from [ICRA]A and outlook revised from Negative
Long term/Short term – Unallocated	25.00	25.00	[ICRA]A-(Stable); downgraded from [ICRA]A and outlook revised from Negative; A2+ reaffirmed
Total	**270.00**	**270.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of BIBA Fashion Limited (BFL) and Kashida Apparels Private Limited (KAPL), commonly referred to as the Group, given the close business, financial and managerial linkages among the entities.

The ratings action factors in the expectation that the Group's subdued performance would continue over the near term, after registering a weaker-than-anticipated performance in FY2024 and 7M FY2025 (provisional financials). The Group's consolidated revenue declined by ~13% to ~Rs. 758 crore in FY2024 due to relatively weak industry wide demand as well as internal issues faced by the company in implementing SAP during the peak season of FY2024. Under-absorption of fixed overheads and some one-time expenses due to bad debt and losses in the distribution channel significantly impacted the Group's operating profit margin (OPM), which declined to ~7% in FY2024 from ~21% in FY2023. Additionally, the company's inventory also remained high at ~Rs. 416 crore as of March 2024, resulting in high working capital blockage. With a view of enhancing liquidity, the management has focused on reducing inventory by offering higher discounts in the fiscal till date. As a result, the company has recorded a growth in revenues of ~8% during April-October FY2025 (provisional financials) and its inventory has moderated to ~Rs. 346 crore as of November 30, 2024, resulting in an improvement in its liquidity position. Even as the company has implemented various cost efficiency measures such as closure of certain non-performing stores and rationalisation of employee costs, the margins are expected to continue to remain under pressure over the short term, leading to weak debt coverage indicators (Interest coverage of ~2 times in FY2025 as per IND AS).

ICRA notes that the company has taken some cost rationalisation initiatives and revamped its strategies (it is targeting new segments to enhance the scale of operations), which coupled with some improvement in demand and strong brand positioning, is expected to support a recovery in revenue growth and margin over the medium term. Aided by an expansion in the operating profits, the company's debt coverage metrics are expected to chart an improving trend over the medium term. ICRA also notes that the company continues to hold inventory older than six months (pertaining to previous seasons), even as the management's enhanced focus on bringing down the inventory levels has helped reduce the aged inventory to an extent. The volume of inventory held as well as ageing of the same will remain a key monitorable.

The ratings continue to draw comfort 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 Group operates on an asset-light business model with almost the entire manufacturing outsourced to vendors on a job-work basis. Lower contribution of in-house manufacturing and the moderate capital expenditure (capex) requirement in store expansion supports the scalability in business. While the group is expected to benefit from control over quality and costs of the final product over the medium to long-term, a timely ramp-up of the capacity utilisation will remain a key monitorable.

The ratings remain constrained by the high brand concentration risk and changing consumer preferences towards modern designs. The business also remains vulnerable to adverse market conditions due to factors including, but not limited to, intense competition in the highly fragmented apparel retail industry. The company's ability to expand its scale of operations and simultaneously bring down discounts (leading to margin expansion) remain key monitorables.

The Stable outlook on the rating reflects ICRA's expectation that an improving sales momentum, together with cost rationalisation initiatives and improvement in the working capital cycle would help BAPL report improved coverage metrics while maintaining an adequate liquidity profile.

Key rating drivers and their description

Credit strengths

Healthy operational profile with strong brand equity and established distribution network – The Group commenced its operations in FY2003, designing and retailing 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 443 exclusive brand outlets (EBOs) and over 700 multi-brand outlets (MBOs) as on October 31, 2024. 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 and a significant online presence (through channel partners as well as through its own website) helped the Group grow at a healthy pace over the years.

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. Lower contribution of in-house manufacturing, even after the commencement of KAPL's operations, along with lower capital expenditure requirement in store expansion (given the use of leased model for self-managed stores), supports the scalability in business.

Credit challenges

Weak operational performance over the past two years; debt coverage metrics remain modest – The Group's consolidated revenue contracted by ~13% to ~Rs. 758 crore in FY2024 due to the relatively weak demand in the high fashion garment retail industry and the internal issues faced by the company in implementing SAP during the peak season of FY2024. The under-absorption of fixed overheads on account of lower revenue and some one-time expenses borne by the company contracted the operating margins to 7% in FY2024 from 21% in FY2023. With a view of enhancing liquidity, the management has focused on reducing inventory by offering higher discounts in the fiscal till date; as a result, the company has recorded a growth in revenues of ~8% in April-October FY2025 (provisional financials) and its inventory has moderated to levels of ~Rs. 346 crore as of November 30, 2024, resulting in an improvement in its liquidity position. Even as the company has implemented various cost efficiency measures such as closure of certain non-performing stores and rationalisation of employee costs, the margins of the company are expected to remain under pressure, leading to weak debt coverage indicators (Interest coverage of ~2 times in FY2025).

High working capital intensity, characterised by huge inventory – 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, a large inventory translates into higher risk of obsolescence due to the 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 key for sustaining its liquidity position.

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 88% in 7M FY2025 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 the 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 the branded as well as fragmented boutique segments in the women's ethnic wear market. Revenue fluctuations will continue to have a bearing on the profitability, given the high proportion of fixed costs and the consistent advertisement expenses.

Liquidity position: Adequate

The Group's liquidity profile is adequate, with free cash and bank balances and unutilised lines of credit of Rs. 20-30 crore as on November 30, 2024. This, coupled with the cash flow from operations, is expected to be sufficient to meet the capex plan of Rs. 20-30 crore in FY2025, debt repayments of ~Rs. 12 crore in FY2025 and ~Rs. 15 crore in FY2026 and the incremental working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company exhibits a healthy improvement in revenue and profitability on a sustained basis, which along with an efficient working capital management leads to an improvement in the credit metrics and liquidity position.

Negative factors – Pressure on the ratings could arise if there is continued pressure on the revenue and accrual generation, and/or a stretch in the working capital cycle, weakening the liquidity profile. Any large debt-funded capex, affecting its credit metrics, could also result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Texile Industry Apparels Rating Methodology- Retail
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BIBA Fashion Limited. The company has four subsidiaries and associates, which are enlisted in Annexure II.

About the company

Biba Apparels Pvt. Ltd., incorporated in July 2002, is promoted by Mrs. Meena Bindra. BFL is involved in the 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. Since 1988, the operations were carried out under a partnership firm, Biba Apparels, and was 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 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 manufacturing capacity of 1.89 million pieces of garments per annum. The unit commenced operations from Q4 FY2024 and its entire production will be sold to BIBA. It is expected to cater to 50-60% of BIBA's production requirements.

Key financial indicators (audited)

BFL - Consolidated	FY2023	FY2024
	Reported	Reported
Operating income (Rs. crore)	874.8	758.1
PAT (Rs. crore)	53.0	-95.5
OPBDIT/OI (%)	21.6%	7.0%
PAT/OI (%)	6.1%	-12.6%
Total outside liabilities/Tangible net worth (times)	2.0	3.1
Total debt/OPBDIT (times)	3.3	14.4
Interest coverage (times)	4.3	0.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				December 23,2024	June 21,2024	Nov 02, 2023	July 07,2023	Jun 30, 2022	-
1	**Long-term fund-based - Working capital limits**	Long term	220.00	**[ICRA]A- (Stable)**	[ICRA]A (Negative)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	-
2	**Long-term fund-based – Term loan**	Long term	25.00	**[ICRA]A- (Stable)**	[ICRA]A (Negative)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	-
3	**Unallocated**	Long term and short term	25.00	**[ICRA]A- (Stable)/ [ICRA]A2+**	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Positive)/ [ICRA]A2+	[ICRA]A (Positive)/ [ICRA]A2+	[ICRA]A (Positive)/ [ICRA]A2+	

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	-	-	-	220.00	[ICRA]A- (Stable)
NA	**Term loans**	FY2021	-	FY2029	25.00	[ICRA]A- (Stable)
NA	**Short-term/long-term unallocated limits**	-	-	-	25.00	[ICRA]A- (Stable))/[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	75.00%	Full Consolidation
Anjuman Brand Design Private Limited	36.82%	Equity method of Consolidation

**As on March 31, 2024*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+ 91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545808
rohan.kanwar@icraindia.com

Gaurav Singla
+91 124 4545366
gaurav.singla@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches