

Duke Fashions (India) Limited

Instrument	Amount (Rs. crore)	Rating Action
Long Term: Fund Based Limits	13.00	[ICRA]A- (Stable);outstanding
Long Term: Non Fund Based Limits	1.50	[ICRA]A- (Stable);assigned
Short Term: Non Fund Based Limits	0.05	[ICRA]A2+;assigned

ICRA has assigned its long term rating of [ICRA]A- (pronounced ICRA A minus) to the enhanced amount of Rs. 1.50 crore¹ non- fund based bank facilities. ICRA has also assigned the short-term rating of [ICRA] A2+ (pronounced ICRA A two plus) to the enhanced amount of Rs.0.05 crore non-fund based bank facilities of Duke Fashions (India) Limited (DFIL)[†]. The outlook on the long term rating is 'Stable'. ICRA has rating outstanding of [ICRA]A- (stable) on Rs. 13 crore long term fund based limits of DFIL.

ICRA rating takes into account the company's steady business growth while maintaining the profitability and working capital cycle which continues to generate adequate accruals to fund most of the incremental capital expenditure and working capital requirement, keeping the financial and liquidity profile healthy. Moreover, the asset light model of operations, limited dependence on the company managed stores due to a multi-channel distribution network, along with efficient working capital management has kept the capital requirements low, resulting healthy return on capital. Given the limited capital expenditure plan over the medium term, track record of efficient inventory management and conservative approach towards scale up of the business, the dependence on borrowing is expected to remain low, which shall maintain the financial profile of the company healthy. In addition, dealership deposits continues to provide long term source of funding to the company, which has resulted in low dependence on the bank funding with limited scheduled term liabilities

The rating continues to take into account the established presence of the company's brand *Duke* in the domestic apparel market, offering a wide product portfolio for men, women and kids in the economy price segment, and its pan India multi-channel distribution network; and also the vast experience of the promoters in the textile industry who are supported by a professional management team.

The rating however continues to remain constrained by the high levels of finished goods inventory on account of the nature of the retail business. While the company has been able to efficiently manage its finished goods inventory, ability to minimize the season leftovers on a consistent basis will remain critical to minimize inventory write-down risks, given the fast changing fashion trends and consumer tastes. Though the company has been able to fund most of its incremental working capital requirement through internal accruals due to comfortable profitability and moderate working capital intensity of operations; given the high sensitivity of the cash flows to the working capital cycle, profitability margins and targeted growth, ability to maintain a balance between these variables will be key determinants of cash flows and incremental funding requirements. The rating remains constrained by DFIL's vulnerability to adverse economic conditions like weakness in consumer spending and high competitive intensity in the domestic apparel retail market which is highly fragmented and shall keep competitive pressures high, especially given the company's presence in the economy segment of branded apparels.

Going forward, significant increase in the capital expenditure towards opening of company managed stores or expanding the in-house manufacturing capacity or deterioration in the working capital cycle which would weaken the cash flows would be the key rating sensitivities as they would increase the dependence on debt borrowings and moderate the financial profile.

¹ 100 lakh = 1 crore = 10 million

[†]For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Recent Results

In FY 2015, DFIL reported an operating income of Rs. 265.59 crore and operating profit margin of 8.8% against an operating income of Rs. 227.72 crore and operating profit margin of 8.9% in FY 2014. The firm on a provisional basis reported a revenue of Rs.212.67 crore in 10 Months of FY2016.

Company Profile

DFIL was incorporated in 1966 and is engaged in retailing of branded apparels in the domestic market under its brand *Duke*. DFIL is promoted by Mr. Komal Kumar Jain who has been involved in the knitted hosiery textile business for close to five decades. DFIL was primarily engaged in the manufacturing of knitted fabric till 1990, subsequent to which it diversified into branded T-shirts and vests. DFIL has over the years diversified its product portfolio to include the entire range of summer and winter wear for men, women and kids. *Duke's* product range is retailed through a multi-channel distribution network comprising of 250 exclusive brand outlets, 3,120 multi brand outlets and 348 large format retail stores.

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