Biba Apparels Private Limited

Instrument	Amount Rated (Rs. Crore)	Rating Action
Long term fund based bank limits^	30.00* (enhanced from Rs 24.10 crore)	[ICRA]A+ (Stable)/ [ICRA]A1+ (reaffirmed)

Source: ICRA
**Includes unallocated amount of Rs 7 crore*
^Long-term fund-based limits are interchangeable with short-term fund-based limits and in case the limits are availed as short-term facilities, short-term rating will be applicable.

ICRA has reaffirmed the long-term rating of [ICRA]A+(pronounced ICRA A plus) assigned to Rs. 30.0 crore[1] (enhanced from Rs 24.10 crore) fund-based bank limits of Biba Apparels Private Limited (BAPL) [†]. The outlook on the long-term rating continues to remain Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the bank limits of BAPL.

The rating reaffirmation reflects the strong brand presence of BAPL's flagship brand, BIBA, in the domestic ethnic wear segment of women and its established pan-India multi-channel distribution network, resulting in a robust financial profile with consistently healthy operating margins, low gearing, and strong debt-protection metrics. Although growth in BAPL's operating income moderated to ~15% during FY2016 (compared to a CAGR of ~30% between FY2012 and FY2015) owing to muted sales growth in Multi brand outlets (MBOs), revenues from Exclusive Brand Outlets (EBOs) continued to grow at a healthy rate of 25% supported by a ~23% increase in the number of stores from 168 to 207 during the year and a modest ~2% increase in revenue per store. BAPL follows an asset-light model of operations with outsourcing of the entire manufacturing and leased model for the company-managed stores, which results in low fixed-capital requirements besides resulting in scalability and healthy return indicators. As a result, the accruals continue to remain adequate to fund the calibrated growth plans in terms of the expansion of EBOs, keeping the reliance on debt low.

ICRA notes that rising input costs in a competitive scenario, coupled with discounting in order to clear old inventory has toned down the operating profit margins to 19.2% during 7MFY2017 compared to 25.3% during the corresponding period last year. The profitability however continues to remain healthy. The assigned rating, moreover, continues to remain constrained by the high levels of finished goods inventory due to requirements at existing stores as well as opening of new stores. Besides, there are other associated risks emanating from the rising levels of season leftovers2 as reflected in share of unsold inventory in the total finished goods inventory from the previous seasons at ~24% as of October 2016 compared to 19% as of September 2015 and 12% as of September 2014. In light of this, the company's ability to profitably minimise the leftovers on a consistent basis and hence protect its profitability margins from a further decline will be crucial, given the fast-changing fashion trends and consumer tastes. ICRA notes that BAPL has initiated steps to control inventory levels by offering higher discounts on old inventory which can be adduced from inventory profile as on October 31, 2016 wherein 60% of stock (in value terms) pertaining to previous seasons was sold between March and October 2016.

Going forward, sustenance of profitability margins remains paramount while controlling the inventory levels. Moreover, most of the sales through large-format multi-brand stores are on sale or return basis, wherein the payments are subject to sale made to end-customers, thus resulting in higher debtor days apart from the risk of sales return. High inventory levels coupled with consignment-type sales model with large format multi-brand retail stores, entail high working capital intensity of operations for the company.

Furthermore, BAPL continues to have sizeable expansion plans. It plans to expand its footprint for its value brand, Rangriti, which was launched in FY2014 through exclusive stores. Together, BAPL plans to almost

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
[1] 100 lakh = 1 crore = 10 million

[2] Leftover is in value terms and includes stock prior to the immediate previous season i.e. for the current season, Autumn Winter 2016, leftover would include stock prior to Spring Summer 2016

double the number of exclusive stores over the next two to three years, which apart from entailing investments towards store capital expenditure, will also require incremental investments towards working capital. Healthy ramp-up in sales of BIBA and Rangriti, together with its ability to maintain profitability margins in a scenario of intense competition in the segment, remain imperative for maintaining a satisfactory cash flow profile. BAPL has been able to fund most of the capital expenditure and working capital requirement from internal accruals in the past. Going forward, given the high sensitivity of free cash flows to capital expenditure levels, working capital cycle and operating profitability; company's ability to efficiently manage these variables while targeting growth remains crucial for maintaining a strong credit profile and thus will be the key rating sensitivities.

Company Profile

BAPL was incorporated in FY2003 and is promoted by Mrs. Meena Bindra and her son Mr. Siddharath Bindra. BAPL is involved in designing and retailing ethnic wear for women and girls in the domestic market under its flagship brand, *BIBA*. In FY2014, the company introduced another brand in the economy segment under the name of *Rangriti*, which also offers ethnic wear for women. As on October 31, 2016, BAPL's flagship brand BIBA was retailed through 224 exclusive stores and 320 large-format stores such as Shopper's Stop, Lifestyle, Central and Pantaloons.

Recent Results

During 7MFY2017, as per the provisional results, BAPL reported an operating income of Rs. 298.6 crore and an operating profit of Rs. 57.3 crore against an operating income of Rs. 253.8 crore and an operating profit of Rs. 64.2 crore in the previous corresponding period. During FY2016, BAPL reported an operating income of Rs. 433.9 crore with operating profit margin of 25.5% and net profit margin of 14.6%.

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