

Proline India Private Limited

December 14, 2017

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Cash Credit	15.00	[ICRA]BBB- (Reaffirmed); Outlook revised from 'Stable' to 'Negative'
Fund based-Stand-by Line of Credit	2.00	[ICRA]BBB- (Reaffirmed); Outlook revised from 'Stable' to 'Negative'
Non-fund based-Letter of Credit/Bank Guarantee	3.00	[ICRA]A3; Reaffirmed
Total	20.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 17.00-crore¹ fund based facilities and the short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 3.00-crore non-fund based bank facilities of Proline India Limited. (PIL or the company)². The outlook on the long-term rating has been revised from 'Stable' to 'Negative'.

Rationale

The rating action takes into account the declining margin of PIL over the last few years owing to competition and pricing pressures. The ratings continue to remain constrained by the company's moderate scale of operations which limits scale benefits to an extent. The ratings also continue to factor in the high debtor levels, as significant proportion of revenues are derived from Large Format Stores (LFS) where the payments are received by the company only after the stock is sold by LFSs. While the company has been able to efficiently manage its finished goods inventory, its 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. The rating remains constrained by PIL's vulnerability to adverse economic conditions, changing trends and customer tastes. The industry is highly fragmented and the competitive pressures remain high, especially given the company's presence in the value-for-money segment of branded apparels, impacting the company's profitability.

The rating action, however, continues to derive comfort from the extensive experience of the promoters in the industry and the presence of an in-house designing team. The company follows asset light model of operations of the company outsourcing entire manufacturing operations. This coupled with low-dependence on company manager stores leads to higher flexibility and lower overheads. The ratings also take into account the established presence of 'Proline' brand in the value-for-money segment, and the company's pan India multi-channel distribution network which is expected to drive business growth in the future. The increased focus on LFS is expected to provide brand visibility and penetration across the country. The ratings also factor in the absence of any major debt-funded capital expenditure in the near to medium term which is expected to support the capital structure going forward.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Negative

The Negative outlook reflects weakening of financial risk profile as evident from decline in revenues along with profitability and increasing working capital intensity of business. ICRA believes Proline India Limited will continue to benefit from the extensive experience of its promoters and established track record in designing and marketing of branded apparels. The ratings may be downgraded in case of a significant decline in the scale of operations or profitability, negatively impacting the cash accruals; or increase in working capital requirements, in turn, weakening the liquidity profile of the company. Conversely, the outlook may be revised to 'Stable' if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile.

Key rating drivers

Credit strengths

- **Strong promoter experience and background; established presence fo 'Proline' brand**– Proline India is promoted by the Batra family having long experience in designing and marketing of branded apparels. Promoters have a track record of more than four decades in marketing/distribution of sports shoes and apparel, fitness equipments, manufacturing of knitted apparel and apparel export. 'Proline' brand has an established presence in the apparel segment.
- **Pan-India multi channel distribution network with focus on large format stores (LFS)** – The company has a pan India multi channel distribution network comprising of large format stores (LFSs), state-wise distributors, e-commerce websites and exclusive brand outlets (EBOs). During FY2017, the company derived ~71% of its revenues through large format stores (LFS), followed by ~15% through distributors, ~8% through e-commerce platforms and the remaining through exclusive brand outlets (EBO's) and other channels. The company has taken a conscious decision of focusing on large format stores to cater to changing consumer trends and widen its reach.
- **Asset light model of operations supports scalability in business** – The Company follows asset-light model of operations with entire manufacturing outsourced to vendors and the finished goods procured on an outright basis. This enables the company to scale-up to meet the increasing requirements without incurring significant capital expenditure and offers higher flexibility and lower overheads.

Credit weaknesses

- **Moderate scale of operations limits financial flexibility to an extent** – The Company has a moderate scale of operations, which has remained range bound during the last five years, limiting its financial flexibility. During FY2017, the revenues of the company declined to Rs. 59.5 from Rs. 64.8 crore in FY2016 as the company discontinued selling its 'Vivaldi' sub-brand with reliance trends. The revenues were also affected during November-2016 to January-2017 owing to de-monetization drive.
- **Erosion in margins and cash accruals amid increased competition and rising operating costs** -The operating and net margins of the company have witnessed a declining trend over past 3-4 years. The decline in profitability has been primarily on account of high employee and high selling expenses along with increase in competition from brands operating in the value-for-money (VFM) segment and smaller regional players across the country.
- **High working capital intensive operations driven by high debtor days; however working capital utilisations remain moderate**-The working capital intensity of the company marginally increased from 42.70% as on March 31, 2016 to 45.4% as on March 31, 2017 primarily on account of reduction in creditors. The company is required to hold higher inventory in retail business (LFSs and EBOs). PIL receives a credit period of about 30-60 days from its suppliers and offers a credit period of about 30-90 days to its state-wise distributors and sales partners for the e-commerce channel. In case of LFSs, the company receives the payment only after the product is sold in the channel partner's store (payment received after secondary sales) resulting in stretched receivables.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1984, Proline India Limited (PIL) is engaged in designing and marketing of branded apparels in the Indian market. The company is a part of the Batra group which is currently being managed by Mr. Rajesh Batra. The company operates in the value-for-money (VFM) segment and is predominantly into selling t-shirts, tracks, sweat shirts and shorts among others under its own brand name 'Proline'. Some of the key sub-brands of PIL include Colours, Varsity, Active and Unique. The company mainly focuses on designing, branding and distribution of garments and follows an asset-light model of operations. The entire manufacturing is outsourced to vendors and the finished goods are procured on an outright basis. The company sells its products in the Indian market through distributors, exclusive brand outlets, online retailers and large format stores.

In FY2017, the company reported a net profit of Rs. 0.4 crore on an operating income of Rs. 59.5 crore, as compared to a net profit of Rs. 1.5 crore on an operating income of Rs. 64.8 crore in FY2016.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	64.8	59.5
PAT (Rs. crore)	0.4	1.5
OPBDIT/ OI (%)	7.2%	4.8%
RoCE (%)	12.8%	7.4%
Total Debt/ TNW (times)	0.8	0.8
Total Debt/ OPBDIT (times)	3.2	5.1
Interest coverage (times)	2.6	1.6
NWC/ OI (%)	42.7%	45.4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2017	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 October 2015	Date & Rating in FY2015 September 2015	
1	Cash Credit	15.00	-	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
2	Stand-by Line of Credit	2.00	-	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
3	Letter of Credit/ Bank Guarantee	3.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]BBB- (Negative)
NA	Stand-by Line of Credit	NA	NA	NA	2.00	[ICRA]BBB- (Negative)
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	3.00	[ICRA]A3

Source: Proline India Limited

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