

October 10, 2019

Celio Future Fashion Private Limited: [ICRA]B+(Stable)/[ICRA]A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	10.00	[ICRA]B+ (Stable); Assigned
Non Fund-based limits	10.00	[ICRA]A4; Assigned
Total	20.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into account Celio Future Fashion Private Limited's (CFFPL or 'the company') pan India brand presence. ICRA notes the increasing scale and continuous support it garners from its parent, Celio International SA, a European textile apparel player, in the form of equity infusions to fund its losses, meet its working capital requirements and finance its capex requirements for store expansions.

The rating is, however, constrained by CFFPL's moderate scale of operations with continued cash losses in the business resulting from the under absorption of fixed cost, coupled with limited pricing flexibility given its growing brand presence in the intensively competitive domestic apparel retail market. Further, the intense competition from other established apparel brands has necessitated incessant discounting by CFFPL, which has continued to impede its operating income and profitability in the business. Also, in the past few years, the rampant discounting by e-commerce companies on clothing merchandise has resulted in loss of wallet share, impacting CFFPL's revenues in the domestic branded apparel business. The ratings are constrained by CFFPL's high working capital intensity of operations from high receivables due to the sale or return (SOR) model followed by the company, wherein the payments are subject to sale made to end-customers, thus, resulting in higher debtor days apart from the risk of sales return along with high inventory stocking requirements at existing stores. Further, the company is present in mid-premium segment in the domestic market where discretionary spends by consumers are closely linked to macro-economic prospects, thus volume and margin pressures are expected to remain in the short-term.

It is to be noted that timely funding support from the parent and the company's ability to achieve sustainable improvement in the operating performance and market share would remain the key monitorable. ICRA also notes that the continued operational and technical support from the parent, coupled with management initiatives to improve the cost structure may support business recovery over the medium term. The rating also favourably factors in the extensive experience of the promoters and key management personnel in the apparel industry is likely to guide the future growth of the company.

The Stable outlook reflects continued support from Celio International SA and the likely improvement in scale of operations via significant increase in point of sales, leading to gradual improvement in profitability metrics.

Key rating drivers and their description

Credit strengths

Strength derived from the parent in terms of operational and financial assistance - Established in 2008, CFFPL was a 50:50 joint venture (JV) between Celio International SA (headquartered in Saint-Ouen, France) and the Future Group. However, after the nod from Foreign Investment Promotion Board to increase the stake, the shareholding of Celio International SA gradually increased to 97.9%. Celio is a ready-to-wear apparel and accessories brand for men. The

menswear brand offers wardrobe essentials like polos, t-shirts, shirts, sweaters, jeans, trousers and accessories. CFFPL derives financial as well as technological assistance from its parent company, which includes regular equity infusion to fund the loss-making operations as well as ready designs/patterns and sourcing inputs, which support the business prospects.

Extensive experience of promoters in the textile industry – CFFPL shares a common management with the parent, which has been in existence since 1985. The daily operations of CFFPL are managed by Mr. Satyen Momaya and Mr. Damodar Agarwal along with an international team supported by a professional management set up.

Credit challenges

Loss making operations due to under absorption of fixed costs and limited pricing flexibility – CFFPL commenced its operations from May 2008. A direct purchase model coupled with moderate scale of operations led to limited absorption of fixed costs. Moreover, weak pricing flexibility given its limited brand presence in the domestic market has led to cash losses, which resulted in erosion of its net worth till March 31, 2016. Nevertheless, regular equity infusion by the parent to the tune of Rs. 164.10 crore (aggregate over FY2016-2018) and an additional Rs. 20 crore in the current fiscal till date to fund the losses as well as manage the working capital needs, has supported operations.

High working capital intensity of operations – The apparel retail business inherently entails high working capital requirements for stocking a wide product range of garments across outlets and a high credit enjoyed by distribution channel partners. Under the ‘sales-or-return’ model used by the company, the unsold inventory with channel partners is reflected as debtors. While CFFPL’s inventory turnover is high at 79 days in FY2019 with its sales distributed across channels, its receivables position is stretched on the back of a slow moving inventory as well as an extended credit enjoyed by its multi brand outlets (MBO), large format retail stores (LFS) and e-commerce channel partners. Besides, there are other associated risks emanating from the sizable inventory of season leftovers, which are required to be offloaded at minimal profits by offering high discounts. Moreover, with the increase in number of points of sale, the amount of unsold inventory in the debtors has increased over the last two years. CFFPL’s receivable cycle increased to 225 days, resulting in the increase in working capital intensity to 30.7% as on March 31, 2019.

Vulnerability to changing trends in the industry amid intense competition – The branded menswear market is characterised by intense competition, with continuous expansion by a number of established brands across regions. Given the nature of the industry, sales also remain vulnerable to changing tastes and preference of consumers. Moreover, consistent requirement of additional advertisement expenses to capture market share limit the operating margins of market players.

Liquidity position - Stretched

CFFPL has incurred continued operational losses since its inception. While the company’s losses are primarily funded by regular equity infusion by its parent company, Celio International SA (Rs. 164 crore between FY2016-FY2018), the same is contingent to the parent’s ability to continue the same. Further, working capital intensity of operations remain high due to an elongated debtors position and high inventory holding. While the average working capital limit utilisation for FY2019 stood at 24%, the same increased to over 90% between April 2019 and July 2019 due to incremental working capital requirements, indicating a stretch in the liquidity position.

Rating sensitivities

Positive triggers: The rating may be upgraded in case of ramp up in the scale of operations, which will facilitate better absorption of fixed costs, leading to sustained improvement in profitability along with an improvement in the net worth position.

Negative triggers: Negative pressure on the rating would arise in case of lack of timely support from the parent to meet the loss funding as well as any debt repayment, if necessary.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textiles Industry –Apparels
Parent/Group Support	We expect CFFPL's parent, Celio International SA, to be willing to extend financial support to the company, should there be a need, given the high strategic importance that it holds for the parent for meeting its diversification objectives. Both the entities also share a common name, which in ICRA's opinion would persuade the parent to provide financial support to CFFPL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The rating is based on standalone financial statements of the company

About the company

Established in 2008, Celio Future Fashion Private Limited is a joint venture between Celio Intl SA and Future Group. The former holds 97.9% share in the company. The company retails its products under the 'Celio' brand, which includes ready-to-wear apparel and accessories for men. The menswear brand offers wardrobe essentials like polos, t-shirts, shirts, sweaters, denims, trousers and accessories, etc.

As per the provisional statement for FY2019, the company reported a net loss of Rs. 17.48 crore on an operating income of Rs. 143.50 crore, against a net loss of Rs. 21.16 crore on an operating income of Rs. 124.42 crore as per the audited statement for FY2018.

Key financial indicators (Provisional)

	FY2018	FY2019
Operating Income (Rs. crore)	124.42	143.50
PAT (Rs. crore)	-21.16	-17.48
OPBDIT/OI (%)	-12.50%	-5.27%
RoCE (%)	-38.21%	-25.44%
Total Outside Liabilities/Tangible Net Worth (times)	0.90	1.85
Total Debt/OPBDIT (times)	0.00	-1.82
Interest Coverage (times)	-9.29	-5.04
DSCR	-9.49	-5.65

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2020)		Rating 10-Oct- 2019	Chronology of Rating History for the past 3 years		
		Amount Rated	Amount Outstanding		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Fund based – Working capital limits	Long-term	10.00		[ICRA]B+ (Stable)	-	-	-
2 Non-Fund Based limits	Short-term	10.00		[ICRA]A4	-	-	-

Amount in Rs crore

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
-	Working capital loans	-	-	-	10.00	[ICRA]B+ (Stable)
-	Letter of credit	-	-	-	10.00	[ICRA]A4

Source: Celio Future Fashions Private Limited

Annexure-2: List of entities considered for consolidated analysis – NA

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