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Proline India Limited: Ratings of [ICRA]BBB- (Stable) and [ICRA]A3 reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Cash Credit	15.00	19.00	[ICRA]BBB- (Stable); Reaffirmed
Long Term-Stand-by Line of Credit	2.00	2.00	[ICRA]BBB- (Stable); Reaffirmed
Short Term-Letter of Credit/Bank Guarantee	3.00	3.00	[ICRA]A3; Reaffirmed
Total	**20.00**	**24.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to derive comfort from the extensive experience of the promoters in the apparel retail industry and the established presence of 'Proline' brand in the value-for-money (VFM) segment. The ratings also consider the healthy growth in operating income (OI) owing to higher sales from tracks and sweat shirt segments and improvement in its profit margins owing to better absorption of fixed expenses. The ratings also factor in the company's pan India multi-channel distribution network which is expected to support business growth in the future. The increased focus on Large Format Stores (LFS) is expected to improve brand visibility and penetration across the country, besides aiding in revenue growth. The company's asset light model of operations and low dependence on company managed stores results in low fixed capital requirements and supports operational flexibility. ICRA also takes note of the recent renovation of the company's exclusive brand outlets and LFS counters for positioning its 'Proline Active' brand for sports and fitness wear, considering the changing customer preferences and to attract a wider customer base.

The ratings, however, continue to remain constrained by the company's moderate scale of operations which limits scale benefits to an extent. The ratings 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 the LFSs. While the company has been able to efficiently manage its finished goods inventory, its ability to minimise the season leftovers on a consistent basis will remain critical to minimise inventory write-down risks, given the fast-changing fashion trends and consumer tastes. The rating remains constrained by the company's vulnerability to adverse economic conditions, changing trends and customer tastes. The industry is highly fragmented marked by presence of several international and Indian brands, and hence the competitive pressures remain high, especially given the company's presence in the value-for-money segment of branded apparels.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that Proline India Limited will continue to benefit from the extensive experience of its promoters in the apparel retail industry and established track record in designing and marketing of branded apparels.

Key rating drivers

Credit strengths

Extensive promoter experience in apparel retail industry; established presence of 'Proline' brand: Proline India is promoted by the Batra family having extensive experience in designing and marketing of branded apparels. The promoters have a track record of more than four decades in marketing/distribution of sports shoes and apparel, fitness equipment, manufacturing of knitted apparel and apparel export. 'Proline' brand has an established pan-India presence especially in the value-for-money 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). In FY2019, the company derived 79.4% of its revenues through large format stores(LFS). The increasing focus on LFS and widened customer reach has supported the growth in OI to Rs. 82.2 crore in FY2019 from Rs. 67.3 crore in FY2018.

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 its operations to meet the increasing requirements without incurring significant capital expenditure and offers higher flexibility and lower overheads.

Credit challenges

Moderate scale of operations limits financial flexibility to an extent: Notwithstanding the 22% growth in FY2019, the company's scale of operations remains moderate, with high dependence on single brand. Also, with the company derived over 95% of its revenues from VFM segment with majority of the revenues derived from men's garments.

High working capital intensive operations driven by high debtor days: The working capital intensity of the company continued to remain high; and marginally increased to 41.2% in FY2019 from 39.1% in FY2018 primarily on account of decrease 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.

High competition in the apparel-retail segment and vulnerability to changing fashion trends: The growth potential of the Indian apparel-retail market has attracted many international and Indian brands and has led to intense competition in the ready-made garments industry. The company also faces intense competition from the unorganised and smaller regional players across the country as it targets the VFM segment. Moreover, the entire fashion industry is vulnerable to changing trends, consumer tastes and economic cycles.

Liquidity position: Adequate

The liquidity position of company remains adequate as the cash accruals are expected to be sufficient to meet the debt repayment obligations and the expected scale of capex over the near to medium term. The average working capital utilisation between June 2018 and August 2019 stood at 81.9%, providing some buffer to meet any contingencies. The company also has a stand by line of credit of Rs. 2.0 crore, which remains unutilised and free cash and bank balances of Rs. 3.1 crore as on March 31, 2019 supporting its liquidity position.

Rating sensitivities

Positive triggers – ICRA could upgrade Proline's ratings if the company demonstrates healthy growth in operating income on a sustained basis, strengthen its brands position through expanding its presence in other segments and regions, while maintaining its capital structure and debt protection metrics. Demonstration of a more efficient management of working capital, as it pursues its growth objectives, would be the key for a higher rating.

Negative triggers – Negative pressure on Proline's ratings may arise, if any reduction in the company's profitability and cash accruals or further increase in the working capital intensity tightens its liquidity position. Specific credit metrics that could lead to a downgrade in ratings include OPBDITA/Interest of less than 2.8 times and Total Debt/ OPBITDA more than 4.0 times and TOL/TNW above 2 times on a sustained basis.

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	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the entity

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 FY2019, the company reported a net profit of Rs. 5.4 crore on an OI of Rs. 82.2 crore compared to a net profit of Rs. 2.9 crore on an OI of Rs. 67.3 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	67.3	82.2
PAT (Rs. crore)	2.9	5.4
OPBDIT/ OI (%)	8.8%	11.2%
RoCE (%)	16.5%	23.3%
Total Debt/ TNW (times)	0.6	0.7
Total Debt/ OPBDIT (times)	2.2	1.9
Interest Coverage (times)	4.4	7.0

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2019 (Rs. crore)	Date &Rating in FY2020 05-Nov 2019	Date & Rating in FY2019 16-Oct 2018	Date & Rating in FY2018 14-Dec 2017	Date & Rating in FY2017 22-Nov 2016
1	Cash Credit	Long term	19.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	Stand-by Line of Credit	Long term	2.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
3	Letter of Credit/Bank Guarantee	Short term	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	-	-	-	19.00	[ICRA]BBB- (Stable)
NA	Stand-by Line of Credit	-	-	-	2.00	[ICRA]BBB- (Stable)
NA	Letter of Credit/Bank Guarantee	-	-	-	3.00	[ICRA]A3

Source: Proline India Limited

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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