ICRA

April 19, 2017

Cravatex Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Term Loan	5.48 (reduced from 8.74)	[ICRA]BB+& / reaffirmed
Fund Based Limits (CC)	50.00	[ICRA]BB+& / reaffirmed
Non-Fund Based Limits (SBLC)	4.50	[ICRA]BB+& / reaffirmed
Non-Fund Based Limits (LC/LER/BC/Factoring)	52.00 (reduced from 64.00)	[ICRA]A4+& / reaffirmed

**Instrument details are provided in Annexure-1*
& under rating watch with developing implications

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) and the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) outstanding on the Rs. 111.98 crore[1] (reduced from Rs 127.24 crore) bank facilities of Cravatex Limited (Cravatex)[2]. The ratings have been placed under watch with developing implications.

Rationale

The reaffirmation of ratings continues to factor in the long established and proven experience of the promoter group in the distribution of sportswear and fitness equipment, exclusive long-term sourcing arrangements with leading principals like Fila, Johnson Health Tech etc. The ratings also take into account the wide geographic spread facilitated by an array of channel partners and a diversified clientele in the institutional sales segment.

The ratings are, however, constrained by the deterioration in the financial profile of the company characterised by revenue de-growth and decline in profitability levels. The company's profitability has been particularly impacted in the e-commerce segment, which is a predominant sales channel for the company, due to intense competition, coupled with the reduced demand following demonetisation. However, during 9MFY2017, Cravatex's wholly-owned subsidiary viz. BB (UK) Limited, has registered a 26.5% yoy revenue growth to GBP7.5 million. The ratings also factor in the high working capital intensity of the company due to high debtors and inventory levels and the weak debt coverage indicators. The ratings also take into account the reduction in the rental income earned from a leased-out property in Mumbai. The company's profitability is exposed to the movement in the foreign exchange rates for the unhedged portion of its cash flows.

The ratings have been placed under watch with developing implications following the announcement by the company to transfer its core operations to a newly formed wholly-owned subsidiary, Cravatex Brands Limited (CBL), for a consideration of Rs 32.68 crore. The consideration will be in the form of 32.68 lakh equity shares of CBL at fully paid face value of Rs 100 each. Subsequent to the transfer, Cravatex's operations would include only rental income from the property given on lease to Singapore Embassy. Recently, a private equity investor, Paragon Partners Growth Fund, infused Rs. 75 crore in CBL in the

[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

form of equity shares, compulsorily convertible preference shares and optionally convertible debentures. The infusion of funds would support the business growth and improve the liquidity profile of Cravatex on a consolidated basis. ICRA is monitoring the above developments and shall evaluate the potential impact on the credit profile of Cravatex upon availability of further details.

Key rating drivers

Credit Strengths
- Established position and long track record in the athletic wear and fitness equipment industry
- Long-term exclusive sourcing arrangements with leading principals in each business segment
- Wide geographic spread enabled through an array of channel partners
- Well-diversified clientele in the institutional sales segment
- Infusion of private equity funds in subsidiary company to support business growth and improve liquidity profile

Credit Weakness
- De-growth in revenues resulting from unfavourable domestic demand
- Significant fall in profitability due to inflationary pressures on operating costs and high competition in the industry
- High working capital intensity of operations due to increase in receivables
- Decline in the rental revenues which have been augmenting the profitability levels till date
- Exposed to competitive pressures from large organized players as well as unorganised sector
- Exposed to adverse movements in foreign exchange rates given that a large part of the procurement is through imports; however an active and effective hedging strategy provides comfort to some extent

Description of key rating drivers highlighted above:
Cravatex has an established presence in the athletic wear and fitness equipment industry. It has been the exclusive licensee for Fila for about nine years. In January 2013, it entered into a long-term agreement with Fila for the licensing rights of the brand for 30 years. Cravatex sells its goods from various channels such as distributors, e-commerce, large front outlets (LFO) and its retail stores including exclusive brand outlets (EBO). The proportion of slaes from e-commerce increased to around 55% of the sales in the Fila segment in FY2016 compared to 40% in FY2014. Cravatex has a wide geographical spread with about 20 owned stores and 25 stores on franchise basis and Maharashtra. In addition to it the company also has 40 distributors across the country. The company imports about 70% to 75% of the raw material while the international sales (exports) form only ~2% of the total operating income. The company's procurement is typically backed by LC, having a tenor of about 60 to 120 days. Thus the company remains vulnerable to adverse movements in foreign exchange rates in this period. The company, however, has an active hedging strategy in order to reduce its exposure to adverse movement in forex rates.

Since the last two years the company has been witnessing pressure on its revenue and profitability. During 9MFY2017, the company reported 10.7% y-o-y fall in its standalone operating income to Rs 126.7 crore as a result of negative impact of demonetization and overall slowdown in sales of e-commerce business. Lower sales, followed by higher trade discounts offered through e-commerce business, led to significant fall in profitability levels of the company. The working capital intensity of the company remains high owing to high debtor and inventory days, resulting in high working capital borrowings. The company plans to utilise part of the funds raised from private equity investor to reduce borrowing levels while also increasing the scale of operations through increase in number of stores and higher marketing spending.

Analytical approach: Not Applicable

Links to applicable Criteria

[Corporate Credit Ratings: A Note on Methodology]

About the Company:

Incorporated in 1951, Cravatex Limited (Cravatex) is a part of the Mumbai-based Batra Group. The company was originally engaged in operating one of the largest chains of dyers and dry cleaners in India (Band Box) and subsequently diversified into garment export, textile processing and printing. These business, however, were divested off subsequently. The company is now engaged in global retail, distribution and sourcing with a presence across the Indian Subcontinent, United Kingdom, Europe, North Africa and the Middle East. The company was listed on the Bombay Stock Exchange in 1979. The company operates in two segments, namely distribution of fitness equipment and distribution of sports shoes and apparel. Cravatex is the exclusive sub-licensee for the distribution of the brand Fila for India, Pakistan, Sri Lanka and Bangladesh (Indian subcontinent), while its subsidiary BB (UK) Ltd supplies to Fila license holders in UK, Ireland, Middle East and North Africa (MENA). Cravatex also holds the exclusive distribution rights for Taiwan-based Johnson Health, which is a reputed vendor for fitness equipment.

For FY2016, Cravatex reported an operating income of Rs. 254.74 crore and a net loss of Rs. 7.92 crore (consolidated financials). For 9M FY2017, Cravatex reported operating income of Rs. 124.81 crore and net loss of Rs. 6.14 crore (standalone unaudited financials).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
				Apr 2017	Apr 2016	Dec 2015	Oct 2014
1	Fund Based (Cash Credit)	Long term	50.00	[ICRA]BB+&	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund Based (Term Loans)	Long term	5.48 (reduced from 8.74)	[ICRA]BB+&	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non-Fund Based (SBLC)	Long term	4.50	[ICRA]BB+&	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
4	Non fund based limits (LC/LER/BC/Factoring)	Short term	52.00	[ICRA]A4+&	[ICRA]A4+	[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

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund Based (Cash Credit)	-	-	-	50.00	[ICRA]BB+&
Fund Based (Term Loans)	Aug-12 to Mar-14	-	Sep-17 to Sep-18	5.48	[ICRA]BB+&
Non-Fund Based (SBLC)	-	-	-	4.50	[ICRA]BB+&
Non fund based limits (LC/LER/BC/Factoring)	-	-	-	52.00	[ICRA]A4+&

Source: Cravatex

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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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