

July 29, 2019

Ochre and Black Private Limited: [ICRA]A+(Stable) and [ICRA]A1+ ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action ¹
Long-term/short-term fund based limits	30.0	[ICRA]A+(Stable)/A1+ assigned
Total	30.0	

* Instrument details are provided in Annexure-1

Rationale

On March 28, 2019, the Board of House of Anita Dongre Limited (HOADL), as part of its corporate restructuring, transferred the businesses under its two brands, AND and Global Desi under a slump sale arrangement to a newly formed wholly-owned subsidiary, Ochre and Black Private Limited (OBPL) - effective April 01, 2019. HOADL will continue to manage the business under its two brands - Anita Dongre and Grassroot. For arriving at the ratings, ICRA has assessed the consolidated financial risk profile of HOADL (referred to as Group) because of the expected strong operational and financial linkages between HOADL and OBPL. There is also a proposed corporate guarantee by HOADL to OBPL's bank loans, which is expected to be executed soon.

The ratings assignment favourably factors in the Group's adequate financial risk profile, its experienced promoter and management team, established brands and diversified presence in the womenswear segment. The Group's adequate financial risk profile is reflected in moderate debt levels, net debt free balance sheet and consequently comfortable debt protection metrics (total debt/OPBITDA of 0.61 times and interest coverage of 15.01 times as per provisional standalone FY2019 numbers). The promoters have a vast experience in the fashion industry with their expertise in designing, production and marketing, aided by a sound management team. The Group has established brands in the mass premium category and diversified and balanced presence across the western wear segment—through AND—and in the fusion wear segment—through Global Desi; both these brands account for approximately 81-82% of the Group's net revenues. Furthermore, the Group has a meaningful and growing presence in the high-end luxury fashion segment through its two brands - Anita Dongre and Grassroot. The ratings also positively factor in the high growth rate in the organised women's wear market. Growth in the organised women's wear segment, which remains under-served, is expected to be led by the increasing proportion of women in the workforce, leading to higher purchasing power and greater reach of organised retail through shopping centres and the e-commerce route.

The Group's strengths are partially offset by the vulnerability of sales to the macro-economic cycle and increasing competitive intensity, apart from product-specific issues, which have contributed to pressure on operating profitability during the past three fiscals. Further, the business is working capital-intensive in nature with inventory susceptible to markdowns in case of a sharp demand slowdown. Disruptions due to macro-economic events such as demonetisation and introduction of the goods and services tax (GST) had also impacted consumer spending in FY2017 and FY2018 to varying degrees. The key challenge for the Group has been an increase in competitive intensity in the women's wear market with greater presence of various foreign brands such as Zara and H&M, proliferation of private labels and competition from incumbent national, regional and local brands leading to price competition and higher discounting trend in the industry. Apart from the above factors, slowing economic growth impacting discretionary spending and the product positioning challenge for its Global Desi brand continues to put pressure on the Group's revenue growth. As the

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

business has a high operating leverage (fixed rental and employee costs), it has led to the under-absorption of overhead costs and pressure on operating profitability. Moreover, slowing revenue growth had contributed to increased inventory levels as on March 31, 2019 and the increase in working capital intensity.

The Group has initiated measures to improve its like-to-like (LTL) growth, optimise inventory levels, tackle competition across its brand portfolio and address product-specific challenges. Along with the above, a conducive macro-economic environment will be crucial to support the Group's sales growth and improve profitability for sustaining its credit profile.

Outlook: Stable

The Stable outlook reflects ICRA's expectation of growth recovery in the Group's consolidated revenues, led by like-to-like growth in its own stores and large format stores and consequent improvement in profitability indicators. Further, the Stable outlook factors in the Group's ability to maintain adequate liquidity levels and improve its working capital intensity through optimum inventory levels. The outlook may be revised to Positive if significant growth in scale, sustainable improvement in profitability, and efficient working capital management strengthen the credit metrics. The outlook may be revised to a Negative if a decline in profitability, a significant stretch in the working capital requirement, or a large debt-funded capital expenditure or inorganic expansion weaken the key credit metrics. Any dilution of HOADL's stake in OBPL impacting HOADL's ability to provide financial support to OBPL or vice versa will be a credit negative.

Key rating drivers

Credit strengths

Vast experience of promoters and management team in the fashion industry; active involvement and commitment of promoters in the business - The promoters have vast experience in the industry with Ms. Anita Dongre overseeing the design aspect for the Group and the other two promoters contributing to the manufacturing, production, logistics and retailing functions. They are ably supported by sound management teams heading the critical functions. To further professionalise the company and bring in external inputs, the company recently appointed Mr. Kavindra Mishra - having vast experience in the branded apparel industry- as its chief executive officer.

Established presence led by flagship brands AND in western wear and Global Desi in fusion wear segments - The Group has an established presence in the organised women's wear segment with its western wear brand AND, having been introduced in 1999 and its fusion wear brand, Global Desi, which started in 2009. Both brands have enjoyed successful runs in their respective segments. The two contribute approximately 82% to the Group's revenues with the balance 18% being generated by its high-end luxury fashion labels such as Anita Dongre and Grassroot. The Group will continue to benefit from the strong brand image of the above labels, supported by its thrust on marketing and advertising.

Positive cash flow from operations, net debt free status lending adequate financial flexibility - The Group is well capitalised, having received Rs. 100.0-crore equity infusion from General Atlantic during FY2014. Further, it has moderate debt levels and remains net debt free and consequently, has comfortable debt protection metrics (total debt/OPBITDA of 0.61 times and interest coverage of 15.01 times as per provisional standalone FY2019 numbers) lending it adequate financial flexibility.

Growth prospects remain buoyant for the women's wear market, both for branded ethnic wear and western wear segments - The women's wear market is significantly under-penetrated with the category comprising 38-39% of overall sales, compared to a global average of 52-53%. This is largely attributable to the unorganised nature of the Indian women's wear market. With increasing penetration of organised retail and consumers switching to branded apparel

from unbranded ones across regions, it has led to a double-digit growth rate for the organised segment and provides adequate room for industry players to grow in the medium to longer term.

Credit challenges

Vulnerability of sales to macro-economic scenario and changing consumer preferences - The Group's sales remain vulnerable to the macro-economic scenario and changing tastes and preferences of consumers, which vary across regions and fashion trends that change fast. Disruptions due to events such as demonetisation and the introduction of the GST have impacted consumer spending to varying degrees. Inventory, which is a key parameter for the industry, thus remains susceptible to markdowns in case of a sharp demand slowdown and slower sales could lead to a higher working capital intensity. Macro-economic growth slowdown during FY2019 has led to a reduction in the discretionary spending impacting the Group's revenue growth. Slowing growth has led to an increase in the Group's inventory levels during March 2019, which it is trying to mitigate by taking necessary actions.

Competition from various established global as well as national, regional and local brands; aggressive discounting by competing brands, slowing economy impacts revenue, profitability - One of the key challenges the Group has been facing is the increase in competitive intensity in the women's wear market. This is largely due to the higher presence of various foreign brands, such as Zara and H&M, proliferation of private labels and competition from incumbent national, regional and local brands. This, apart from the reduction in discretionary spending by consumers, has led to price competition and higher discounting trends in the industry, which has had a marked impact on the Group's profitability.

High operating leverage in the business has impacted profitability - The macro-economic scenario and competitive intensity along with the Group's product-specific issues—as explained earlier—have contributed to lower sales growth during FY2018 and FY2019. As the business has a high operating leverage (fixed rentals and employee costs), it has resulted in moderation in operating profitability during the past two fiscals. The Group has initiated many measures to improve its like-to-like (LTL) growth, reduce inventory levels, tackle competition across its brand portfolio and address product-specific challenges. Along with the above, a conducive macro-economic environment will be crucial to support the Group's sales growth and arrest the decline in its profitability for sustaining its credit profile.

Liquidity position

The Group's liquidity remains adequate, supported by unutilised bank limits and unencumbered cash and equivalents of Rs. 45 crore as on March 31, 2019. The average working capital utilisation as a percentage of sanctioned limits has been around 72% for the 13 months leading up to May 2019. The Group's ability to improve its profitability and optimise its inventory levels will be crucial to support its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry - Apparels
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on HOADL's consolidated financial profile.

About the group

House of Anita Dongre Limited, 'HOADL', is in the business of designing, manufacturing and retailing apparel. In July 2015, the group was renamed as House of Anita Dongre Limited from And Designs India Limited. On March 28, 2019, the Board of HOADL, as part of its corporate restructuring transferred the businesses under its two brands, 'AND' and 'Global Desi' to a newly formed wholly owned subsidiary, Ochre and Black Private Limited. HOADL will continue to manage the two high-end brands, 'Anita Dongre' and 'Grassroot'.

The HOADL group is present in the women's wear category, having a product range spanning western wear, Indo-western wear and traditional Indian wear. The group is present in both the mass premium and high-end luxury fashion segment. The mass premium category is represented by its flagship brand, 'AND', which is a western wear brand, and 'Global Desi', which is a fusion wear (western and ethnic wear) brand. HOADL's couture category has two brands—the 'Anita Dongre' and 'Grassroot', which is an organic wear brand that is being scaled up. The retail channel mix consists of own stores, both group owned as well as franchisee outlets in leading malls/high streets and large format stores such as Shoppers Stop, Pantaloons, Ethnicity and Lifestyle outlets across tier-I, II and III cities as well as emerging towns in India.

Key financial indicators (HOADL audited, consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	440.8	479.0
PAT (Rs. crore)	23.6	7.9
OPBDIT/ OI (%)	12.2%	8.2%
RoCE (%)	14.6%	5.8%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.6	0.8
Interest Coverage (times)	24.8	11.7

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress)

Note: Since OBPL has been formed effective April 01, 2019, past financials of the same are not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
3 Long-term/short-term fund based limits	Long-term/short term	30.0	-	[ICRA]A+(Stable)/A1+	-	-	-

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)	Proposed Rating and Outlook
NA	Long-term/short-term fund based limits	-	NA	NA	30.0	[ICRA]A+(Stable)/A1+

Source: Ochre and Black Private Limited

Annexure-2: List of entities considered for consolidated analysis

Group Name	Ownership	Consolidation Approach
House of Anita Dongre Limited	-	Holding company
House of Anita Dongre (USA) Inc.	100%	Full consolidation
The Anita Dongre Foundation	100%	Full consolidation
Ochre and Black Private Limited*	100%	Full consolidation

*Effective from April 01, 2019

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