

Zodiac Clothing Company Limited

Instrument	Amount	Rating Action
	In Crore	
Short-term, Fund-based limits	70.0	[ICRA]A1+ reaffirmed
Short-term, non-fund based facilities	10.0	[ICRA]A1+ reaffirmed
Commercial Paper	20.0	[ICRA]A1+ reaffirmed

Source: ICRA

ICRA has reaffirmed its [ICRA]A1+ (pronounced ICRA A one Plus) rating assigned to the Rs. 70.0 crore¹ short-term fund based and Rs. 10.0 crore non-fund-based facilities of Zodiac Clothing Company Limited (ZCCL)². ICRA has also reaffirmed its [ICRA]A1+ (pronounced ICRA A one Plus) rating to the Rs.20.0 crore Commercial Paper programme of ZCCL.

The rating reaffirmation factors in the extensive experience of the promoters of ZCCL in the readymade garments (RMG) business; its professional management team and adequate financial flexibility backed by low gearing and strategic investment having market value significantly in excess of book value. The rating continues to draw comfort from its stringent receivables policy – low debtor days and sound capital structure (consolidated gearing of 0.28 times as on March 31, 2016). ICRA also takes note of the management's endeavor towards supplementing its liquidity position through leasing out its recently shut down manufacturing facility at Dubai. ICRA continues to acknowledge the company's established brands in the premium men's wear category and their niche positioning in the branded garments industry. In the exports market, the business is supported by its in-house design capabilities and long-term relationships ZCCL enjoys with its customers.

ZCCL's operating profitability continued to remain under pressure during FY 2016 on account of the weak macro-economic scenario across domestic and exports markets resulting in lower volumes and weak pricing flexibility and under-absorption of fixed costs. Further, the intense competition from other premium brands and incessant discounting by them continued to impede the top line and profitability for ZCCL's domestic business since its brands are not discounted. Also, in the past two years, rampant discounting by ecommerce companies on electronic goods and clothing merchandise has resulted in share of wallet being lost to them thus impacting revenues for ZCCL's domestic branded business. The above factors are reflected in ~11% decline in revenues and EBITDA margin decline to 1.7% during FY 2016. Despite the decline in operating performance during FY 2016, the company funded its capital expenditure of Rs. 23.4 crore primarily from internal accruals.

Though the operating performance could remain impacted because of the subdued economic environment, the company's efforts towards enhancing its liquidity in the near-term through leasing out of its manufacturing facility at Dubai and other commercial real estate or liquidating its listed investments shall be crucial. Additionally, recovery in business performance and financial performance during subsequent quarters shall be key monitorables.

Company Profile

Promoted by Mr. M Y Noorani, the House of Zodiac commenced operations as a partnership firm in 1954 for manufacturing of neckties. Zodiac Clothing Company Limited (ZCCL) was incorporated in 1984 and came out with an initial public offer in 1994. It started export of readymade garments mainly neckties and shirts in 1960's. Majority of the current exports are to Europe, UK and North America. ZCCL entered the branded shirt business in India in the late '70's where it is positioned in the premium menswear segment. Currently, ZCCL is present in men's formal wear through its flagship brand "Zodiac", in party/club wear through its sub-brand ZOD! and in

¹ Rs. 100 lakh = Rs. 1 crore = Rs. 10 million

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



relaxed casual wear category through sub-brand Z3 launched in 2008. All the three brands, 'Zodiac', 'ZODI' and 'Z3' are under a perpetual licensing arrangement from its group company, Metropolitan Trading Company (MTC), a partnership firm that is 100% owned by the promoters. MTC charges a royalty of 1% over annual turnover from ZCCL. In the exports segment where it focuses on design driven value addition it is present mainly in the men's casual wear and semi-formal wear categories. The readymade garments export business accounts for almost 52% of its turnover (FY 2016) while the domestic branded business contributes the rest.

The branded business is routed through mainly three channels exclusive outlets (EBOs) also referred to as own retail by ZCCL, multi-brand outlets (MBOs) and organized retailers (Large Format Stores –LFS). The company has over 1,200 MBO's spread across Tier I and Tier II cities. Its 142 EBOs (as on March 31, 2015) are concentrated mainly across Tier I cities with remaining outlets in Tier-II and Tier-III cities.

ZCCL currently employs around 2,525 people at its modern automated manufacturing plants located in Karnataka and Gujarat in India. It has design offices in three of the fashion capitals of the world - London, New York and Duesseldorf and a design studio in Mumbai.

Recent results:

As per the audited FY 2016 numbers, ZCCL reported a loss of Rs. 8.2 crore (over profit after tax of Rs.9.0 crore in FY 2015) over an operating income of Rs. 348.4 crore (over Rs. 391.6 crore in FY 2015).

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