

November 22, 2019

## Zodiac Clothing Company Limited - Update on Material Event

### Summary of rating action

Instrument	Rated Amount	Rating Outstanding
	(Rs. crore)	
Short-term fund-based facilities	70.00	[ICRA]A2; outstanding
Short-term non fund-based facilities	10.00	[ICRA]A2; outstanding
<b>Total</b>	<b>80.00</b>	

### Material event

Zodiac Clothing Company Limited (ZCCL) announced its Q2 and H1 FY2020 results on November 13, 2019. The company reported an operating income (OI) of Rs. 95.8 crore with an operating loss before depreciation, interest and tax (OPBDITA) of Rs. 1.6 crore (adjusted -for IND AS 116 impact - OBPIDTA loss of Rs. 18.0 crore, excluding other income) and a net loss of Rs. 19.6 crore in H1 FY2020, against an OI of Rs. 101.6 crore with an OPBDITA loss of Rs. 12.7 crore (excluding other income) and a net loss of Rs. 17.6 crore in H1 FY2019. It reported an OPBDITA loss of Rs. 9.1 crore (including recurring rental income) on an operating income of Rs. 219.5 crore for FY2019. Due to continued YoY decline in revenues, the operating loss has widened as the fixed costs in the business remain unabsorbed. ZCCL's domestic revenues remain under pressure due to the ongoing economic slowdown and heightened competition. Its export revenues were impacted on account of subdued consumer off-take in the key markets of US, UK and the Middle East, and competition from other low-cost countries, which was exacerbated after reduction in export incentives, post the introduction of the Goods and Services Tax (GST). During Q2 FY2020, deferral in a few export orders amounting to approximately Rs. 3 crore also contributed to the YoY decline in revenues.

### Impact of the material event

The rating remains unchanged at the earlier level of [ICRA]A2. The company's consolidated debt was Rs. 55.7 crore as on September 30, 2019 against a consolidated cash and equivalents of Rs. 31.2 crore as on September 30, 2019. The company's losses, capex requirements and incremental working capital in the past four-five quarters have been supported by equity infusion of Rs. 50 crore by the promoters in the form of preference shares and equity warrants during FY2019 and H1 FY2020. With OPBITDA losses in the current fiscal, ZCCL is dependent on liquidating its existing cash reserves to meet its funding requirements. The management expects ZCCL's revenues to improve in H2 FY2020 vis-a-vis H1 FY2020 with Q3 and Q4 generally being the key revenue generating quarters for the company. Though it has adequate liquidity buffer in the near-term it could require further capital to fund losses, if any, to meet its growth commitments and service its debt obligations. Timely infusion of funds through various measures will thus remain critical.

The rating, nevertheless, favourably factors in the company's track record of low gearing with a track record of maintaining a conservative capital structure (0.20 times as on September 30, 2019) and limiting its external borrowings through divesting stake in its listed investments and through equity infusion in the past and current fiscal. Apart from liquidity in the form of cash and equivalents, ZCCL has Rs. 18.9-crore receivable (as on September 30, 2019) from the sale of its second level subsidiary holding properties in the UK in FY2017 which would help to fund any expansion in the

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overseas business. The rating continues to favourably factor in the extensive experience of the promoters of ZCCL in the readymade garments business and its professional management team. ICRA continues to acknowledge its 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 the long-term relationships that ZCCL enjoys with its customers

Going forward, ICRA would continue to monitor the company's quarterly performance. Continued pressure on profitability, material increase in debt levels and an adverse liquidity position would be key rating triggers.

**The previous detailed rating rationale is available on the following link: [Click here](#)**

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