CAMPUS
CAMPUS ACTIVEWEAR LTD.
Formerly known as :
Campus Activewear Pvt. Ltd.
CIN - L74120DL2008PLC183629

6th May, 2024

To,

BSE Limited Corporate Relationship Department 1st Floor, New Trading Ring, Rotunda Building, P. J. Towers, Dalal Street, Mumbai – 400 001 **SCRIP CODE: 543523**	National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 **SYMBOL: CAMPUS**

Sub: Disclosure pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Upgradation in Credit Rating

Dear Sir,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that **India Ratings** Upgrades Campus Activewear's Bank Facilities to **'IND AA-'/Stable** from **'IND A+'/Positive** while affirming the short-term rating at **'IND A1+'**.

The Rationale received from India Ratings is enclosed herewith.

We request you to take the same on record.

Thanking You,

Yours truly
For Campus Activewear Limited

Archana Maini
Digitally signed by Archana Maini
Date: 2024.05.06 17:07:29 +05'30'

Archana Maini
General Counsel & Company Secretary
Membership No. A16092

Encl: As above

India Ratings & Research
A Fitch Group Company

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India Ratings Upgrades Campus Activewear’s Bank Facilities to ‘IND AA-’/Stable

May 06, 2024 | Footwear

India Ratings and Research (Ind-Ra) has upgraded the long-term rating on Campus Activewear Limited’s (CAL) bank facilities to ‘IND AA-’/Stable from ‘IND A+’/Positive while affirming the short-term rating at ‘IND A1+’. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR2,300	IND AA-/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Non-fund-based working capital limit	-	-	-	INR220	IND AA- /Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Term loan	-	-	March 2026	INR270 (reduced from INR453.8)	IND AA-/Stable	Upgraded

Analytical Approach

Ind-Ra continues to take a standalone view of CAL for the rating purpose.

Detailed Rationale of the Rating Action

The upgrade reflects sustained premiumisation of CAL’s portfolio, its strengthening brand presence, its healthy scale of operations, and the likelihood of the company sustaining them in FY25-FY26. The rating action also reflect the company’s consistently robust credit profile, healthy EBITDA margins, strong cash generating ability and reducing dependence on external debt. However, the ratings are constrained by intense competition and evolving designs in the industry.

List of Key Rating Drivers

Strengths

- Strong credit metrics

- Demand scenario likely to improve in FY25
- Healthy EBITDA margins despite likely moderation in FY24
- Strengthening brand presence

Weaknesses

- Intense competition; evolving designs

Detailed Description of Key Rating Drivers

Strong Credit Metrics: Despite a slight moderation in the profitability in FY24, CAL's credit metrics remained strong, with the net leverage (net debt + lease/EBITDA) at 1.1x in 9MFY24 (FY23: 1.3x, FY22: 1.2x) and interest coverage (EBITDA/Interest expense) at 7.7x (9.2x, 13.9x). Moreover, majority of the total debt of INR2,157 million in 9MFY24 (FY23: INR3,350 million) consisted of lease liabilities of INR1,616 million (FY23: INR1,542 million). Healthy profit generation, moderate capex and better working capital cycle management in FY24 have reduced the company's reliance on working capital limits. Ind-Ra anticipates that the credit metrics will remain robust in the near to medium term, with the net adjusted leverage reducing below 1.0x and interest coverage remaining above 7x, supported by growth in the absolute EBITDA and the absence of any major debt-funded capex plans.

Demand Scenario Likely to Improve in FY25: CAL's revenue grew at a CAGR of 27% from FY20-FY23. Ind-Ra expects the revenue to have remained stable in FY24 (FY23: INR14,843 million, FY22: INR11,942 million), based on the 9MFY24 revenue of INR10,844 million (9MFY23: INR11,365 million, 9MFY22: INR8,418 million). The steady revenue growth in FY24 could be on account of CAL's expansion through its distributor network and the continual addition of stores annually, partially offset by a subdued demand in the northern market and a reduction in the online-to-offline (O2O) sales due to discontinuation of the O2O platform by one of their major customers in 2QFY24. Ind-Ra anticipates the revenue to improve to INR15,000 million-16,000 million for FY25, driven by the ongoing premiumisation and diversification of the product portfolio, a broader distribution network, and an increasing contribution from the high-margin online sales channel, which accounted for 38% of total revenue in 9MFY24 (FY23: 37%, FY22: 33%; FY21: 19%).

While CAL plans to expand its presence in western and southern India, its primary market will continue to be in northern India over the medium term. Nevertheless, the company's revenue remains susceptible to the seasonal nature of the business, with a significant portion of sales occurring during August-December, the winter season in northern India.

Healthy EBITDA Margins, despite Likely Moderation in FY24: The EBITDA margin remained strong until FY23, but Ind-Ra expects them to have moderated to 14%-15% in FY24, as evidenced by the margin of 13.6% in 9MFY24 (FY23: 17.1%, FY22: 19.9%). This decline in profit margin in 9MFY24 was primarily due to an increase in advertisement expenditure to 8.6% of revenue (FY23: 6.3%, FY22: 6.2%). The additional expenditure on advertising was a result of the shift in sales to the marketplace from the O2O platform, representing one instance. Amid the challenges, the company successfully passed on the entire increase in raw material prices and benefitted from an increased revenue share from premium products, which offer higher profitability, improved operating leverage, and better pricing within the portfolio. This cushioned the EBITDA margin for 9MFY24, despite the increased advertising expenses. Ind-Ra believes CAL's ongoing focus on transitioning to a premium product portfolio and further increasing the proportion of online sales will aid in margin recovery in FY25 , despite increased spending on marketing-related activities and raw material inflation.

Strengthening Brand Presence: CAL continues to strengthen its brand presence by continuously increasing its exclusive brand outlets and expanding its presence in the online segment. The company has taken several initiatives across all segments in target customer groups. The brand already benefits from a healthy presence in northern India and is now focusing on expanding in other regions as well. In addition to social media engagement, the company has an expansive TV campaign along with vast out-of-home coverage.

CAL's advertisement and marketing-related expenditure increased to 8.6% of the revenue during FY24 (FY23: 6.3%, FY22: 6.2%) and Ind-Ra expects the same to constitute 6%-7% of the revenue over the medium term. The higher spends are likely to enhance the group's brand building initiatives and help in competing with its established peers.

Intense Competition; Evolving Designs: The company's growth prospects continue to be impacted by increasing competition from several unorganised players, evolving footwear designs and changing fashion. However, regular interactions with customers and rigorous monitoring of inventories have been helping the company mitigate these risks. Moreover, the group faces competition from established brands, and hence, increasing market share remains key to its growth.

Liquidity

Adequate: CAL has sanctioned fund-based limits of INR2,300 million. The average utilisation of the fund-based facility was 32% for 12 months ended March 2024, while the limit utilisation was nil for the past two months. The unencumbered cash balances stood at INR58.8 million at 9MFYE24 (FY23: INR143 million). Cash flow from operation remained positive at INR 954 million in FY23 (FY22: INR11 million).

The company incurred capex of only INR500 million-600 million in FY24 (FY23: INR687 million, FY22: INR343 million), towards the purchase of moulds and regular maintenance. Over the medium term, management does not have any major capex plan apart from regular maintenance. CAL has an annual repayment obligation for INR54 million for FY25 and FY26 each.

Rating Sensitivities

Positive: A significant improvement in the revenue along with profitability by way of increasing the share of premium products, while maintaining the credit metrics, on a sustained basis, will be positive for the ratings.

Negative: Lower-than-expected revenue diversification and/or significant deterioration in the EBITDA margins, higher working capital requirements, or a large debt-funded capex, leading to the net leverage above 1.5x, on a sustained basis, will be negative for the ratings.

About the Company

CAL commenced commercial operations as Ankit International in August 2015. The company is a part of the Hari Krishan Agarwal group of companies within the larger Action Group, which has been in the footwear business for over three decades. Previously, the group had three entities: Nikhil International, Kabeer Textiles Private Limited and Ankit International. In March 2017, the entire business of Nikhil International and Kabeer Textiles was transferred to CAL, which did not have any significant operations prior to this transfer. On 7 February 2020, Ankit International was converted into a private limited company, named Campus AI. Effective September 2022, Campus AI has merged with CAL.

KEY FINANCIAL INDICATORS

Parameters	9MFY24	FY23	FY22
Revenue (INR million)	10,844	14,843	11,942
EBITDA (INR million)	1,470	2,536	2,378
EBITDA margin (%)	13.6	17.1	19.9
Net leverage (x)	1.1	1.3	1.20
Interest coverage (x)	7.7	9.1	13.8
Source: CAL, Ind-Ra			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook				
				20 October 2023	24 March 2023	17 November 2022	21 July 2022	27 May 2021
Issuer rating	Long term		-	WD	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A+/Stable
Fund-based working capital Limit	Long term/Short -term	INR2,300	IND AA-/Stable/IND A1+	-	IND A+/Positive/ IND A1+	IND A+/Positive/ IND A1+	IND A+/Positive/ IND A1+	IND A+/Stable/IND A1+
Non-fund-based working capital limit	Long-term/Short -term	INR220	IND AA-/Stable/IND A1+	-	IND A+/Positive/ IND A1+	IND A+/Positive/ IND A1+	IND A+/Positive/ IND A1+	IND A+/Stable/IND A1+
Term loan	Long-term	INR270	IND AA-/Stable	-	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A+/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity level
Fund-based working capital limit	**Low**
Non-fund-based working capital limit	**Low**
Term loan	**Low**

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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