MUFTI
MUMBAI

CREDO BRANDS MARKETING LIMITED
(fka Credo Brands Marketing Private Limited)
Plot No. B, 8, MIDC Central Road, Marol MIDC,
Andheri (E), Mumbai - 400093. INDIA
Tel. No.: +91 22 6141 7200 Email: helpdesk@mufti.in
Website: Corporate: www.credobrands.in
Ecommerce: www.muftijeans.in
CIN: U18101MH1999PLC119669

**February 21, 2024**

**To**
**BSE Limited**
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

**Scrip Code: 544058**

**To**
**National Stock Exchange of India Limited**
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

**Scrip Symbol: MUFTI**

Dear Sir/Madam,

**Sub: Credit Rating for existing Bank facilities of the Company**

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that the CARE Ratings Limited reaffirms its ratings for existing Bank facilities of the Company, as follows:

| Facilities | Amount (Rs. crore) | Rating | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 7.59 (Reduced from 10.91) | CARE A+; Stable (Single A Plus; Outlook: Stable) | Reaffirmed |
| Long Term / Short Term Bank Facilities | 70.00 | CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus) | Reaffirmed |

Please find enclosed herewith a Press Release issued by CARE Ratings Limited in this regard on February 21, 2024.

Kindly take the same on record.

Thanking you,

Your faithfully,
For **Credo Brands Marketing Limited**

SANJAY KUMAR MUTHA
Digitally signed by SANJAY KUMAR MUTHA
Date: 2024.02.21 18:32:09 +05'30'

**Sanjay Kumar Mutha**
**Company Secretary and Compliance Officer**

**Encl. As above**

# Credo Brands Marketing Limited

Feb 21, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 7.59<br>(Reduced from 10.91) | CARE A+; Stable | Reaffirmed |
| Long-term / Short-term bank facilities | 70.00 | CARE A+; Stable / CARE A1+ | Reaffirmed |

Details of instruments/facilities in Annexure-1

## Rationale and key rating drivers

The reaffirmation of the ratings assigned to bank facilities of Credo Brands Marketing Limited (CBML) (formerly known as Credo Brands Marketing Private Limited) continues to derive strength from the vast experience of the promoter in retail lifestyle industry, presence of well-established brand name 'Mufti' coupled with having widespread distribution network with focus on asset light business model, the company's arrangement with suppliers, comfortable financial risk profile and strong liquidity profile. The ratings also factor in the improvement in the scale of operations and operating profit margins in FY23 (refers to April 01 to March 31) and in 9MFY24. The ratings, however, continue to be tempered by the relatively moderate scale of operations, dependence on the single brand, elongated operating cycle and inherent risks associated with the lifestyle retailing industry in the backdrop of changing consumer preferences and prevailing intense competition in the apparel segment.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive Factors**

- Increase in scale of operations above Rs. 650 crores with PBILDT margins above 30% on a consistent basis leading to cash accruals of above Rs. 150 crores
- Maintaining strong liquidity position

**Negative Factors**

- Increase in working capital intensity with gross current assets above 350 days on a sustained basis
- Increase in overall gearing above 1.00x on sustained basis
- Substantial reduction in cash surpluses, due to material dividend payout, or any corporate actions

## Analytical approach: Standalone

## Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its growth momentum as envisaged which shall enable it to maintain the envisaged operating performance over the near to medium term.

## Detailed description of the key rating drivers

## Key strengths

**Experienced promoter in the retail lifestyle industry**

Kamal Khushlani, the main promoter of the company has an experience of more than two decades in the retail lifestyle industry. He launched the clothing line under brand 'Mufti' in 1998. The promoter is well-supported by qualified professionals.

**Established brand name and widespread distribution network**

The brand 'Mufti' is targeted towards the youth in the mid premium to premium segment within the men's casual wear category viz. Shirts, Jeans/ Trousers and T-shirts. The company enjoys the established brand name in the domestic market through its consistent efforts on advertisement and promotion. The company sells through various channels and has been focussing on increasing retail presence. The company sells its products primarily through Exclusive Brand Outlets (EBO), Multi Brand Outlets (MBO), Large Format Stores (LFS) and E-business.

**Company's arrangement with suppliers**

The company continues to outsource the manufacturing of the garments to the known players such as Grace Creation, Best Sellers Apparels Pvt Ltd, Nehal Trading, Vaishnavi Global Pvt Ltd etc. The company controls every aspect of the value chain from the design (yarn, fabric, garment) to manufacturing at each stage. This enables the company to exercise tight control over the quality of end products, while also benefiting from economies of scale from bulk purchase.

**Growth in revenues coupled with improvement in profit margins in FY23 as well as in 9MFY24**

CBML's sales improved y-o-y by ~45% and stood at Rs. 499.65 crores in FY23 as compared to Rs. 342.35 crores in FY22 on account of growth in volume coupled with increase in selling price. PBILDT margins improved to 33.33% in FY23 as compared to 30.67% in FY22 on account of increase in prices as well as rationalisation of costs such as employee cost, etc. During 9MFY24

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the company has achieved TOI of Rs. 437.42 crores with PBILDT margin of 30.35%. This has led to improvement in cash accruals generated by the company. However, sustainability of the margin remains key rating monitorable.

**Comfortable financial risk profile**

The company's financial risk profile is characterised by healthy net worth, healthy cash accruals and adequate liquidity. The Overall gearing level remained comfortable at 0.68x as on March 31, 2023 as compared to 0.65x as on March 31, 2022 owing to non-utilisation of working capital limits. The company's bank borrowings are minimal, and debt comprises mostly of lease adjusted debt under IND-AS116. Furthermore, interest coverage stood at 9.76x in FY23 as compared to 7.13x in FY22 on account of improvement in profitability. Financial risk profile is expected to remain comfortable as the company does not have any major debt-funded capex plans going forward except for setting up a few additional exclusive brand outlets (EBOs) which will be funded entirely through internal accruals.

## Key weaknesses

**Long operating cycle**

The company's operating cycle remains elongated although improved on y-o-y basis and stood at 160 days in FY23 as compared to 178 days in FY22 mainly driven by improvement in collection days. Average collection period improved to 94 days in FY23 as compared to 130 days in FY22 and average inventory days stood at 109 days in FY23 as compared to 103 days in FY22. The company has to maintain inventory at its warehouses located in Bengaluru and Mumbai from where the supplies are made to its stores across all locations. Nevertheless, in spite of high operating cycle the company's working capital utilisation remains low for the last 12 months ending Dec-23 since the company was able to manage its working capital requirements through internal accruals.

**Relatively small size of operations and operating with a single brand**

Company has a relatively smaller scale of operations, as its focus is on a singular segment, which is the men's casualwear, with many of its competitors catering to a wider target segment. Moreover, the company till date sells all its products under a single brand – "Mufti".

**High competition in branded apparel segment**

The Indian apparel industry is highly fragmented in nature and unorganised sector accounts for more than 60% of the industry and international brands accounts for around 20% of the organized sector. The company faces competition from the players in the unorganized sector as the entry barrier is low and also from the large apparel players with the established Indian and foreign brands. Many foreign brands have entered the Indian retail market, especially in the branded apparel segment. However, the products of the company are priced lower as compared to the branded apparels marketed by the foreign companies. With rising income levels, and aspirations for branded apparels the company is likely to benefit by opening new stores in the tier III and IV cities. With the entry of large corporate houses in the retail space and possibility of higher presence of foreign apparel players through the formation of joint ventures (JVs)/tie-up /on its own will further intensify the competition. Further, the lifestyle retailing will also continue to be vulnerable to changing fashion trends and macroeconomic outlook.

## Liquidity: Adequate

Liquidity is marked by adequate projected cash accruals against repayment obligations majorly being lease rentals. The un-encumbered cash balance of the company as March 31, 2023 is Rs. 8.12 crores. There is no major debt funded capex plans of the company in the near term. The working capital utilisation for the last 12 months ending December-23 has been low at ~15.59% (sanctioned limit of Rs 70 crores) and its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. As on March 31, 2023, current ratio stood at 4.65x and quick ratio stood at 2.82x

## Environment, social, and governance (ESG) risks:

| | Risk factors |
|---|---|
| **Environmental** | CBML has low exposure to environmental risks as it does not have manufacturing facilities of its own. The sector does not face any major physical climate risk. |
| **Social** | Increasing usage of customer data following growing penetration of e-commerce poses data privacy and legal risks for retail entities. The company ensures that employees handling sensitive and critical data are covered with all information security and data leakage prevention controls to mitigate IT risks |
| **Governance** | Governance standards appear to be adequate, based on compliance with listing agreements, reporting standards and disclosures by the company. |

**Applicable criteria:**

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Retail

## About the company and industry

### Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer Discretionary | Consumer Services | Retailing | Distributors |

Credo Brands Marketing Limited (CBML), incorporated in 1999, is engaged in the marketing of men's fashion garments in the lifestyle category under the brand name of "MUFTI”. Since its inception, Mufti has evolved as a brand that offered casual wear in the shirt and denim categories; to one that now offers a range of T-shirts, shorts, joggers, outerwear, blazers and some accessories also. Marketed and distributed by CBML, Mufti was the brainchild of Mr. Kamal Khushlani, founder and CEO of the company, who has over 20 years of experience in the industry. The company has outsourced the garment manufacturing activities and manages only designing/branding/marketing through various stores across India. The company carries out sales through store formats such as Exclusive Brand Outlets (EBOs), Multi Brand Outlets (MBOs) and Large Format Stores (LFS). In case of EBOs, the company follows the three models viz. Company owned company operates (COCO), Company owned franchisee operates (COFO) and Franchisee owned franchisee operates (FOFO). CBML had listed on national stock exchange at Rs. 282.35/- per share dated Dec 27, 2023.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | 9MFY24 (UA) |
|---|---|---|---|
| Total operating income | 342.35 | 499.65 | 437.42 |
| PBILDT | 105.00 | 166.54 | 132.76 |
| PAT | 33.75 | 77.45 | 52.13 |
| Overall gearing (times) | 0.65 | 0.68 | NA |
| Interest coverage (times) | 7.13 | 9.76 | 7.52 |

A: Audited UA: Unaudited NA: Not available; Note: ‘the above results are latest financial results available’

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company**: Annexure-4

**Lender details**: Annexure-5

### Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | 03-02-2026 | 7.59 | CARE A+; Stable |
| Fund-based - LT/ ST-Cash Credit | | - | - | - | 70.00 | CARE A+; Stable / CARE A1+ |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Fund-based - LT/ ST-Cash Credit | LT/ST* | 70.00 | CARE A+; Stable / CARE A1+ | - | 1)CARE A+; Stable / CARE A1+ (20-Mar-23) | 1)CARE A+; Stable / CARE A1+ (07-Mar-22) | 1)CARE A+; Stable / CARE A1+ (30-Mar-21) |
| 2 | Fund-based - LT-Term Loan | LT | 7.59 | CARE A+; Stable | - | 1)CARE A+; Stable (20-Mar-23) | 1)CARE A+; Stable (07-Mar-22) | 1)CARE A+; Stable (30-Mar-21) |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based - LT/ ST-Cash Credit | Simple |

**Annexure-5: Lender details**

| |
|---|
| To view the lender wise details of bank facilities please click here |

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

| Media Contact | Analytical Contacts |
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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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