

Credo Brands Marketing Limited

February 21, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	70.00	CARE A+; Stable / CARE A1+	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Credo Brands Marketing Limited (CBML) reflects stable operating and financial performance in FY24 (refers to April 01 to March 31) and 9MFY25 and CARE Ratings Limited's (CARE Ratings') expectations of sustained performance in the medium term driven by its established brand name 'Mufti' in the domestic menswear industry. Ratings also factor CBML's wide product portfolio and pan-India distribution network while maintaining a comfortable financial risk profile. CBML's revenue grew by ~14% YoY to ~₹569 crore in FY24 with stable gross margin and profit before interest, lease rentals, depreciation, and tax (PBILDT) margin sustaining above 28% translating gross cash accruals (GCA) of ~₹115 crore. While reaffirming ratings, CARE Ratings notes the elongation in CBML's operating cycle to 202 days in FY24 against 160 days in FY23 largely attributable to higher year-end inventory and receivables. The company's working capital utilisation remains low for the last 12 months ending December 2024 since the company was able to manage its working capital requirements through internal accruals. Ratings continue to factor in CBML's comfortable financial risk profile characterised by healthy net worth, steady cash flows, and strong liquidity with overall gearing of 0.74x and total outside liabilities to tangible net worth (TOL/TNW) of 1.08x as on March 31, 2024. CARE Ratings expects CBML's revenue to grow by 10-15% annually in the next 2-3 years supported by planned store additions with PBILDT margin sustaining in current levels.

However, ratings remain constrained by CBML's dependence on a single brand, working capital intensive operations driven by high operating cycle, inherent risks associated with the lifestyle retailing industry in the backdrop of changing consumer preferences, and prevailing intense competition in the apparel segment.

CARE Ratings has withdrawn the rating outstanding on the long-term bank facilities (term loans) of CBML with immediate effect based on the request received from the company and no dues confirmation received from the lenders, in accordance with CARE Ratings' withdrawal policy.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations above ₹650 crore with PBILDT margins above 30% on a consistent basis leading to cash accruals of above ₹150 crore.
- Maintenance of conservative capital structure and healthy debt coverage metrics with PBILDT interest cover above 8.5x on a sustained basis.

Negative factors

- Substantial decline in revenue and profitability translating into pressure on liquidity position.
- Increase in working capital intensity with gross current assets above 350 days on a sustained basis.
- Increase in TOL/TNW above 1.2x and/or deterioration in PBILDT interest cover below 5.5x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook on the long-term rating reflects CARE Ratings' expectations that CBML will maintain a comfortable financial risk profile on the back of its established brand and distribution network in the domestic apparel business while benefitting from its promoters' experience.

Detailed description of key rating drivers:

Key strengths

Asset-light business model and extensive experience of its promoters

CBML operates with an asset-light business model wherein its entire manufacturing is outsourced to trusted job workers and third-party suppliers with the company keeping a tight control over product designing and quality of fabrics. This model lends greater operating flexibility by keeping fixed costs under check and reducing the capital required for scaling up of business. The

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

company also benefits from more than two decades of experience of its promoter, Kamal Khushlani, and the top management comprising 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 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. As on December 31, 2024, total number of touchpoints is 1,861 that includes 435 EBOs, 94 LFSs, and 1,332 MBOs.

Healthy cash accruals driven profitability margins

CBML has reported sustained increase in total operating income (TOI) marked by compounded annual growth rate (CAGR) of 24.5% in the last three years ended March 31, 2024, to ₹568 crore in FY24 compared to ₹294 crore in FY21. It improved y-o-y by ~14% to ₹~568 crore in FY24 compared to ₹~500 crore in FY23 considering growth in volume driven by brand presence despite moderation in apparel market during the year. Gross margin remained stable YoY in FY24. PBILDT margin moderated to 28.54% in FY24 compared to 33.05% in FY23, primarily considering increase in provision of sales return along with increase in selling expenses, employees, and manpower costs. PBILDT margin remained at healthy levels, leading to GCA at healthy levels of ₹~115 crore in FY24 (PY: ₹~126 crore). CARE Ratings expects CBML's revenue to grow by 10-15% annually in the next 2-3 years, supported by planned store additions, with PBILDT margin sustaining in similar range resulting into adequate cash accruals.

Comfortable financial risk profile

The company's financial risk profile is comfortable characterised by healthy net worth, cash accruals, and strong liquidity. Net worth of the company stood at ₹~341 crore as on March 31, 2024, with limited reliance on bank borrowings. In FY25, the company has fully repaid its outstanding term loan of ₹~6.75 crore. Capital structure stood at comfortable levels marked by overall gearing at 0.74x (PY: 0.68x) and TOL/TNW at 1.08x (PY: 1.04x) as on March 31, 2024. In FY24, debt coverage metrics stood at comfortable levels, despite some moderation considering lower profitability, marked by PBILDT interest coverage at 6.78x (PY: 9.68x) and TDGCA at 2.20x (PY: 1.52x). CARE Ratings expects financial risk profile to remain comfortable in absence of debt-funded capex and addition of stores each year will be funded entirely through internal accruals.

Key weaknesses

Working capital intensive nature of operations

The company's operating cycle remains elongated at 202 days in FY24 and 160 days in FY23, mainly driven by inventory and collection days. Average collection period (from its distribution network) elongated to 123 days in FY24 from 109 days in FY23, considering end of season sales being stretched. In FY24, average inventory days stood at 123 days (PY: 109 days) and average creditors' days stood at 32 days (PY: 43 days). The company has to maintain inventory at its warehouses in Bengaluru and Mumbai from where the supplies are made to its stores across all locations. Despite high operating cycle, the company's working capital utilisation remains low for the last 12 months ending December 2024 since the company was able to manage its working capital requirements through internal accruals.

Concentration of revenue in single brand and intense competition in domestic menswear industry

CBML's revenue demonstrates high concentration with a single brand name and dependence on casual menswear category, which exposes it to the risks arising from demand slowdown in the category and disruptions from new market entrants. The company offers a wide product portfolio across casual wear comprising t-shirts, shirts, jeans, trousers, and accessories, among others, which limits the risk to an extent. Moreover, the company faces competition from the players in the unorganised sector as the entry barrier is low and also from the large apparel players with the established Indian and foreign brands, which limits pricing flexibility.

Exposure to changing consumer preferences and evolving discretionary spending trends

Apparel retail industry is closely linked to macroeconomic conditions, consumer confidence, and spending patterns. It remains susceptible to economic downturns owing to the discretionary nature of its products and hence revenue and profitability remains vulnerable to economic cycle. CBML is also exposed to changing consumer preferences and fashion trends, which necessitate continuous design innovation and increase the risk of inventory markdowns.

Liquidity: Strong

Liquidity is strong marked by projected healthy cash accruals in the range of ₹125-150 crore p.a. against debt repayment obligation (majorly lease payments) of ₹40-50 crore p.a. over the next three years. There are no major debt-funded capex plans of the company in the near-to-mid term. It had free cash balance of ₹~1.77 crore as on September 30, 2024, and a healthy buffer from unutilised working capital facilities (with commensurate drawing power). The average working capital utilisation stood low at ~4% for the 12 months ending December 2024, which provides a liquidity cushion. Net CFO stood at ₹~55 crore in FY24 (PY: ₹~70 crore) and has remained positive in the last five years. As on March 31, 2024, current ratio stood at 2.50x (PY: 3x) and quick ratio stood at 1.65x (PY: 1.82x).

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Retail](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Retailing	Distributors

Incorporated in 1999, CBML is engaged in marketing men's fashion garments in the lifestyle category under the brand name "MUFTI", which offers a range of T-shirts, shorts, joggers, outerwear, blazers, and accessories. The company is promoted by Kamal Khushlani, who has over 25 years of experience in the fashion industry. CBML has outsourced its garment manufacturing activities and focusses on designing/branding/marketing through its network of stores across India, including EBOs, MBOs, and LFS. CBML is listed on NSE and BSE since December 2023.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	499.65	568.29	464.97
PBILDT	165.11	162.21	138.68
PAT	77.45	59.16	54.58
Overall gearing (times)	0.68	0.74	NA
Interest coverage (times)	9.68	6.78	7.30

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: 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 and Rating Outlook
Fund-based - LT-Term loan	-	-	-	03-02-2026	0.00	Withdrawn
Fund-based - LT/ ST-Cash credit	-	-	-	-	70.00	CARE A+; Stable/ CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ST-Cash credit	LT/ST	70.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (21-Feb-24)	1)CARE A+; Stable / CARE A1+ (20-Mar-23)	1)CARE A+; Stable / CARE A1+ (07-Mar-22)
2	Fund-based - LT-Term loan	LT	-	-	-	1)CARE A+; Stable (21-Feb-24)	1)CARE A+; Stable (20-Mar-23)	1)CARE A+; Stable (07-Mar-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

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

Contact us

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About us:

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