

April 05, 2016

Facilities	Amount (Rs. Crore)	Ratings
<b>Working Capital*</b>	<b>30.00</b>	<b>SMERA A-/Stable (Assigned)</b>
<b>Term Loan</b>	<b>10.00</b>	<b>SMERA A-/Stable (Assigned)</b>
<b>Letter of Credit#</b>	<b>35.00</b>	<b>SMERA A1 (Assigned)</b>

\*includes sublimit of Cash Credit (Rs.25 crore), Working capital demand loan (Rs.20 crore), Buyer's credit (Rs.10 crore), Usance Letter of Credit (Rs.30 crore), Bank Guarantee (Rs.5 crore) and sight letter of credit (Rs.30 crore)

# includes sublimit of Cash Credit, Working capital demand loan and Buyer's credit of Rs.35 crore each.

SMERA has assigned rating of '**SMERA A-**' (read as **SMERA A minus**) to the Rs.40.00 crore long-term (fund based) bank facility and '**SMERA A1**' (read as **SMERA A one**) to the Rs.35.00 crore short-term (non-fund based) bank facility of Mohan Clothing Company Private Limited (MCCPL). The outlook is '**Stable**'. The ratings draw comfort from the well established presence of the 'Blackberrys' brand coupled with a robust distribution network across India and extensive experience of the promoters in the readymade garments (RMG) business. The ratings are also strengthened by the strong financial risk profile marked by low gearing, healthy debt protection metrics and comfortable liquidity profile. However, the aforementioned strengths are partially offset by the capital intensive nature of business and exposure to intense competition from established domestic and international brands in the RMG segment.

MCCPL's business risk profile is supported by its well established 'Blackberrys' brand in the formal men's clothing segment. The ratings also draw support from the sizeable marketing budget of around Rs.32.32 crore in 2014-15 towards brand building and marketing activities which is expected to continue in future too.

The company has a robust distribution network of 200 exclusive brand outlets (EBO). It has joined hands with 1000 multi brand outlets (MBO), three large format retail partners (LFR) and three e-commerce websites. Besides, the company also sells apparels through its own website to enhance the brand image further.

SMERA believes that the company will continue to enhance its distribution network, and the same is expected to support the growing scale of operations and strong brand presence.

MCCPL's financial risk profile continues to remain healthy marked by comfortable net worth of Rs.174.31 crore against debt of Rs.10.24 crore, resulting in gearing of 0.06 times in FY2014-15 as compared to zero times during the previous year. The interest coverage of the company, though moderated, continued to remain healthy at 7.05 times in FY2014-15 compared to 9.40 times in the previous year. SMERA believes that the financial risk profile will remain healthy owing to its net worth levels and low reliance on outside borrowings to support company operations.

The liquidity profile of the company continues to remain comfortable evident from the low utilisation of fund based limits (BLU 20.02%) for 12 months ended February 2016 and unencumbered cash and bank balance of Rs.26.40 crore in FY2014-15 compared to Rs.5.49 crore during the previous year.

Moreover, the company's operating income has grown at a compounded annual growth rate (CAGR) of 15.42 per cent over the last four years to Rs.569.38 crore ended FY2014-15. This is in contrast to Rs.370.32 crore in FY2011-12 owing to increase in number of EBO's to 200 in FY2014-15 from 120 in FY2011-12.

MCCPL's operations are capital intensive reflected in the gross current assets (GCA) of 169 days in FY2014-15, an increase from 148 days in the previous year. These moderate GCA days emanates from high inventory holding requirement, mainly to support the multiple SKUs and range of products at the store level. Going forward, the inventory holding period is expected to remain around 110 days as on March 31, 2016.

SMERA also takes note of the intense competition from renowned domestic and international brands in the premium RMG segment. This is particularly in the wake of gradual shift in consumer preferences and proliferation of online shopping that may impinge on the company's ability to expand margins. SMERA believes that the company's ability to maintain and enhance its brand positioning and quality of products, while keeping costs under control will be a key rating sensitivity going forward.

### **Outlook: Stable**

SMERA believes that MCCPL will maintain a stable business risk profile over the medium term owing to its experienced management, established presence of '*Blackberrys*' brand and robust distribution network. The outlook may be revised to 'Positive' if the company expands its scale of operations with sustainable profit margins achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower than expected operating income and accruals or deterioration in the profitability profile. Any lengthening of working capital cycle may also entail a 'Negative' outlook.

### **Rating Sensitivity Factors**

- Efficient working capital cycle
- Sustainable growth in revenue and profitability profile

### **About the Company**

The Haryana-based MCPPL was founded by Mr Mohan and family in 1991 to design and manufacture men apparels. The company's men's clothing line includes formals, casuals, party wear among others under the '*Blackberrys*' brand name. The company has an annual manufacturing capacity of 37.5 lakh pieces of suits, trousers and shirts and the current utilisation is around 80%.

For FY2014–15, the company reported profit after tax (PAT) of Rs.25.09 crore on operating income of Rs.569.38 crore, as compared with profit after tax (PAT) of Rs.30.94 crore on operating income of Rs.543.70 crore in FY2013–14. MCCPL has reported operating income of Rs.602.72 crore (provisional) for 11 months ended February 2016. The net worth of the company stood at Rs.174.31 crore as on March 31, 2015 against Rs.150.06 crore a year earlier.

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