

Press Release

MOHAN CLOTHING COMPANY PRIVATE LIMITED (MCCPL)

05 February, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	SMERA A / Outlook: Stable
Short Term Rating	SMERA A1

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long-term rating to '**SMERA A' (read as SMERA A)** and short term rating to '**SMERA A1' (read as SMERA A one)** on the Rs. 75.00 crore bank facilities of MOHAN CLOTHING COMPANY PRIVATE LIMITED (MCCPL). The outlook is '**Stable**'.

Incorporated in 1991, MCCPL is a Haryana-based company incorporated by Mr. Mohan and family. The company manufactures men's apparels under the brand name '*Blackberrys*'. The clothing line includes formals, casuals, party wear among others. The company has an annual manufacturing capacity of 37.5 lakh pieces of suits, trousers and shirts and the current utilisation is around 80 percent.

The rating upgrade is in view of the healthy business risk profile as the company has extended its distribution network by setting up 65 fully owned franchise outlets (FOFO) along with introduction of new brands namely Blackberry 'Evolve' and 'Urban'. Further, the rating also incorporates the company's ability to withstand its presence in the retail apparel segment despite intense competition.

Going forward, SMERA believes that the company will sustain its business risk profile marked by its established market presence owing to its revenue growth and healthy profitability over the near to medium term.

Key Rating Drivers

Strengths

- **Established track record of operations and brand image**

MCCPL was incorporated in 1991. The company has an established track record of more than two decades. The manufacturing unit is located in Haryana. 'Blackberry' is considered to be one of the established apparel brands for men. The Directors, Mr. Rajendra Mohan, Mr. Nikhil Mohan and Mr. Nitin Mohan were the founding members followed by Mr. Nakul Mohan who joined in 2007. The directors have experience of more than two decades in the textile industry. SMERA believes that MCCPL will benefit over the established brand image and promoters vast experience in the industry.

- **Healthy business risk profile supported by robust distribution network**

MCCPL's business risk profile is supported by its well established 'Blackberry's' brand in the formal men's clothing segment. The company's operating income has grown at a compounded annual growth rate (CAGR) of 9 per cent over the last four years to Rs. 695.85 crore ended FY2017. This is in contrast to Rs.543.70 crore in FY2013-14 owing to increase in channel partners in the distribution network. The company has a robust distribution network of 180 Exclusive brand outlets (EBO), 1200 plus Multi brand outlets (MBO), large format retailers like shoppers stop, lifestyle, pantaloons etc., and E-commerce platforms like Jabong, Myntra and Amazon among others along with its own website. In 2017 the company set up approximately 65 fully owned franchisee outlets (FOFO). MCCPL's margins have been stagnant during the period under study due to the competitive nature of retail business.

SMERA believes that MCCPL will maintain healthy business risk profile over the near to medium term.

Healthy financial risk profile

MCPL has healthy financial risk profile marked by net worth of Rs. 233.63 crore as on 31 March, 2017 as against Rs. 201.56 crore as on 31 March 2016. The gearing stood comfortable at 0.05 times as on 31 March, 2017 as against 0.11 times as on 31 March, 2016. The total debt of Rs. 12.81 crore comprises Rs. 6.87 crore of term loan from banks and working capital borrowings of Rs. 5.93 crore as on 31 March, 2017. The company has working capital limits of Rs. 40.00 crore. The Interest Coverage ratio stood at 6.72 times in FY2017. The Debt Service Coverage Ratio stood at 4.35 times in FY2017. The net cash accruals stood healthy at Rs. 45.90 crore against debt obligation of 2.04 crore in FY2017.

SMERA believes that the company will maintain a comfortable financial risk profile on the back of strong liquidity position and limited dependence on banks for funding requirements.

Weaknesses

• Working capital intensive operations

MCCPL has working capital intensive operations mainly due to the retail nature of business. The company needs to maintain high inventory for smooth functioning of the value chain. The Gross Current Assets (GCA) stood at 151 days as on 31 March, 2017 as against 157 days in the previous year. This is mainly due to high inventory holding of 103 days as on 31 March 2017 as against 121 days in the previous year. The company has debtors of 52 days as on 31 March, 2017 as against 41 days as on 31 March, 2016. The company gets extended credit period from its suppliers of ~100 days which moderates its working capital limits.

• Intense competition

The Indian apparel industry is impacted due to various reasons including entry of international brands, pricing, client preference, changing trends etc. This exposes the company to intense competition. However, MCCPL's established position in the industry along with strong brand image mitigates the risk.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Mohan Clothing Company Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that MCCPL will maintain a stable outlook over the medium term owing to its experienced management, established presence of 'Blackberry's' brand and robust distribution network. The outlook may be revised to 'Positive' in case of significant improvement in business risk profile without impacting the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in the financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	695.85	626.46	569.38
EBITDA	Rs. Cr.	72.80	68.68	64.84
PAT	Rs. Cr.	32.35	28.85	25.09
EBITDA Margin	(%)	10.46	10.96	11.39
PAT Margin	(%)	4.65	4.60	4.41
ROCE	(%)	26.01	27.37	59.11
Total Debt/Tangible Net Worth	Times	0.05	0.11	0.06
PBDIT/Interest	Times	6.72	6.60	7.05
Total Debt/PBDIT	Times	0.17	0.34	0.16

SMERA Ratings Limited

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CIN: U74999MH2005PLC155683 | SEBI Permanent Registration No.: IN / CRA / 006 / 2011

Gross Current Assets (Days)	Days	151	157	144
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Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
18-Aug, 2017	Term Loan	Long Term	INR 10	SMERA A-/Stable Issuer not co-operating
	Working capital demand loan (WC DL)*	Long Term	INR 30	SMERA A-/Stable Issuer not co-operating
	Letter of credit#	Short Term	INR 35	SMERA A1 Issuer not co-operating
05-Apr, 2016	Term Loan	Long Term	INR 10	SMERA A- / Stable (Assigned)
	Working capital demand loan (WC DL)*	Long Term	INR 30	SMERA A- / Stable (Assigned)
	Letter of credit#	Short Term	INR 35	SMERA A1 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Letter of credit#	Not Applicable	Not Applicable	Not Applicable	35.00	SMERA A1 (Reaffirmed)
Working capital demand loan (WC DL)*	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A / Stable (Upgrade)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A / Stable (Upgrade)

**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.

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ABOUT SMERA

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