



Press Release
OTTO Clothing Private Limited
October 27, 2023
Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	168.29	ACUITE A- Reaffirmed & Withdrawn	-
Bank Loan Ratings	6.71	Not Applicable Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	175.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE A- (read as ACUITE A minus)**' on the Rs.168.29 Cr bank facilities of **Otto Clothing Private Limited (OCPL)**. Acuite has also withdrawn the long term rating on the Rs.6.71 Cr **proposed** bank facilities of **Otto Clothing Private Limited (OCPL)**.

The withdrawal is on account of client's request and receipt of NOC from the bankers. The withdrawal is in accordance with Acuite's policy on withdrawal of rating.

Rationale for reaffirmation

The rating reaffirmation takes into account stable operating and financial performance of Pothys Group in FY2023. Further, the established brand presence, long standing track record and extensive experience of the promoters support the rating. The rating also derives strength from the moderate financial risk profile and moderate working capital cycle of the group. However, the exposure to risk associated with its on-going capital expenditure for the new showrooms and geographical concentration risk constrain the rating.

About Company

Otto Clothing Private Limited (OCPL) is formed by the promoters of Pothys Group and is into manufacturing and distribution of branded Men's wear including Shirts, T-Shirts, Trousers and essentials like innerwear, belts, wallets, etc. in the name style of 'Otto' Brand, 'Minister White' Brand and 'Clarke Gable' Brand. Incorporated as a partnership firm named Pothys Clothing Company in the year 1996, the entity was renamed and converted to Otto Clothing Private Limited in the year 2004. OCPL has two manufacturing units, one at Sriperumbudur, Kanchipuram and another at Srivilliputhur, Virudhunagar. The garments manufactured by OCPL are sold via its exclusive brand outlets and multi-brand outlets in the states of Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, Telangana and Andaman. The company is currently directed by Mr.S.Ramesh, Mr.S. Pothiraj, Mr. S Murugesh, Mr. S Mahesh, and Mr. S Ashok.

About the Group

'Pothys' is a chain of textile showrooms in South India, founded in the year 1923 by Mr. Thiru K.V. Pothu Mooppanar, based out of Chennai, Tamil Nadu. It originally started with selling silk sarees only. Later, it has expanded to selling all kinds of garments. The first showroom was set up at Srivilliputtur and with 18 showrooms all over Tamil Nadu, Puducherry, Bangalore (Karnataka) and in Trivandrum and Ernakulam (Kerala). Pothys Group business is

concentrated mostly in the region of Tamil Nadu, however, also spread across South India with showrooms at Trivandrum, Ernakulam, Bangalore and Pondicherry. Hence, for streamlining the operational and financial convenience, the operations were split into two major divisional

groups i.e. Chennai Group and Tirunelveli Group such that the assets and investments of each of the divisions are held under their respective partnership firms i.e. M/s Pothys for Chennai division and M/s Pothys – Tirunelveli for Tirunelveli division. The business and operations for the Chennai division is managed under Pothys Private Limited since October, 2014 while the business and operations of the Tirunelveli division earlier managed by the partnership firm, have been transferred to Pothys Retail Private Limited w.e.f April, 2021. The Group also has its in-house brands for the men's apparel segment. The brands are operated under group company Otto Clothing Private Limited (OCPL). Incorporated in 2004, OCPL is the manufacturing arm of the Pothys group and manages the Otto' Brand, 'Minister White' Brand and 'Clarke Gable' Brand of the Group. From April 2021, the business from the Pothys firm – Tirunelveli has been transferred to newly formed, private limited company Pothys Retail Private Limited. Going ahead, Pothys – Tirunelveli and Pothys – Chennai both the firms will be only for investments and fixed asset management of the private limited entities. Further, the Group has also diversified into retail jewellery segment under the group company Pothys Swarna Mahal Private Limited (PSMPL). PSMPL is a wholly owned subsidiary company of Pothys Retail Private Limited (PRPL).

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Pothys Private Limited (PPL), Pothys - Tirunelveli (PT), Pothys, Otto Clothing Private Limited, Pothys Retail Private Limited and Pothys Swarna Mahal Private Limited. Together they are referred to as the Pothys Group considering their common line of business, common management and significant operational and financial linkages

Key Rating Drivers

Strengths

Established brand presence, long standing track record and extensive experience of the promoters

Pothys was established in 1923 (~98 years) by late Mr. Thiru K.V. Pothu Moopanar under the name Pothu Moopanar to sell cotton sarees, dhotis and towels woven on his own loom. He started his own business with the aid of his son, Mr. K.V.P Sadayandi Moopanar, who had joined the business with him in the year 1955. In 1977, Mr. K.V.P Sadayandi Moopanar was able to establish the name and expand the outfit with a self – styled retail showroom at Srivilliputtur, renamed the brand name as 'POTHYS'. Pothys Group, is among the largest family owned enterprises in Tamil Nadu. Promoters have rich experience in the retail market and have wide reputation in entire corporate retail market segment. The brand Pothys is renowned for the variety of range of silk sarees, readymade garments, fashion wear, etc. and has further diversified to electronics and day-to-day products as well. Pothys targets all segments of customers from low and middle-income customers to high-income customers, with varied brand preferences. The group has a total of 18 showrooms and with presence in all across South India. The group has strong procurement linkages owing to large scale of operations, and also commands pricing of cost-plus-nominal mark-up from manufacturers. With a long-standing brand presence of more than nine decades now, the group has established strong supplier relations with vendors from various regions for textile products, plus for all other products through C&F agents, stockists, etc. The operating income of the Group stood at Rs.4946.11 Cr in FY2023(prov.) as against Rs.3274.94 Cr in FY2022 and Rs.1765.14 Cr in FY2021. Acuité believes that Pothys Group will continue to benefit from its established market position, extensive experience of the promoters and longstanding relationship with its suppliers over the medium term backed by its increasing network of stores at various locations.

Resourceful promoter's group

The strong backing of an experienced and resourceful promoters with experienced teams operating the stores provide sound support to the group. Moreover, promoter's funds which could be available for meeting any shortfall in debt servicing, fund new projects, and meet cash flow shortfalls in nascent stages, further gives financial flexibility to group.

Moderate financial risk profile

The financial risk profile of the Group continues to remain moderate marked by modest capital structure, healthy net-worth and moderate debt protection metrics. Considering the unsecured loans from promoters, directors and related parties as quasi-equity, the overall gearing stood at 1.05 times as on March 31, 2023(prov.) as against 1.24 times as on March 31, 2022 and 1.15 times as on March 31, 2021. The unsecured loans from promoters, directors and related parties stood at Rs.357.25 Cr as on March 31, 2023 (prov.). The Debt-EBITDA ratio stood at 2.83 times in FY2023(prov.) as against 2.79 times in FY2022 and 3.69 times in FY2021, while the TOL/TNW stood at moderate 1.53 times in FY2023(prov.) as against 1.70 times in FY2022 and 1.58 times in FY2021. The interest coverage ratio for the Group stood at 5.70 times in FY2023(prov.) as against 4.43 times in FY2022 and 3.47 times in FY2021. The DSCR stood at 2.64 times in FY2023(prov.) as against 2.60 times in FY2022 and 1.83 times in FY2021. Acuité believes that the financial risk profile of the group is expected to remain moderate with regular accretions to reserves.

Moderate working capital cycle

The Group has a moderate working capital cycle as reflected in its GCA days of 153 days as on March 31, 2023(prov.) as against 175 days as on March 31, 2022 and 211 days as on March 31, 2021. The inventory days as on March 31, 2023(prov.) stood at 137 days as against 160 days as on March 31, 2022 and 160 days as on March 31, 2021. The group is operating retail showrooms, it maintains optimal inventory across stores in terms of quantity and designs at the stores. As majority of the transactions are on immediate payment, debtors' cycle is low. The debtor days stood at 16 days as on March 31, 2023 (prov.) as against 27 days in March 31, 2022 and 35 days on March 31, 2021. Acuité believes that, with the nature of business, operations are expected to be moderately working capital intensive over the medium term.

Weaknesses

Exposure to risk associated with it 's on-going capital expenditure for the new showrooms

The group has 4 upcoming stores in Padi, Kanchipuram, Tirupathi and Tirupur. These projects are being undertaken in Pothys Group and KVPS Properties and Developers Private Limited. The total project cost was earlier estimated to be Rs.623 Cr to be funded through bank debt of Rs.409 Cr. and promoter contribution of Rs.214 Cr. The group had been sanctioned term loan for two of the four upcoming stores and received in principal sanction for the other two stores but the final financial closure was yet to be achieved. The estimated project cost has now increased to Rs.746 Cr as on September 2023. This escalated cost is expected to be primarily funded by additional debt. The project completion date which was initially estimated to be in FY2023, was extended to FY2024, is once again revised to H1FY2025. A new project is planned under the newly formed subsidiary Pothys Swarna Mahal Private Limited. The project will be in Trivandrum, Kerala with total project cost of around Rs.20 crores, out of which Rs.13 crores will be funded by way of term loan from bank for infrastructures and interiors. Acuité believes timely project implementation while sustaining the financial risk profile remains a key rating sensitivity factor.

Geographical concentration risk

The Group's total revenue from 'Pothys' stores is generated majorly from stores in Tamil Nadu which contributes around 65-70% of total revenue, 18-20% from Kerala, 8-10% from Pondicherry and 5-6% from Karnataka. This proposition will change due to opening of 2 stores, one each in Tamil Nadu and Kerala. Currently group is operating 14 stores in Tamil Nadu including latest store opening in Chennai, 2 stores in Kerala including store opened recently in Ernakulum and each one store in Pondicherry & Karnataka. In terms of 'Pothys' showroom area Tamil Nadu holds 59%, Kerala holds 27%, Pondicherry holds 7% and Karnataka holds 7%. Acuité believes that large format stores concentration renders the revenue growth and profitability

susceptible to overall market conditions in the Tamil Nadu and Kerala region.

Exposure to competition in the retailing industry

The Group under the store name 'Pothys' currently operates with 18 showrooms with 4 other new showrooms coming up on the high streets of Chennai and other cities in Tamil Nadu and Andhra Pradesh. However, these places are also flooded with small and large players in the same line of business. The entry of branded textile players in Chennai is expected to intensify the competitive landscape for existing players like Pothys Group. The non-textile segment also faces stiff competition from local players which would limit the company's ability to increase revenues significantly while maintaining margins. The credit profile of the group, over the medium term, will continue to be impacted by the geographical concentration of its stores in and around Chennai coupled with increasing competition from other players.

ESG Factors Relevant for Rating

For the apparel manufacturing and retail garment industry, water is a key input and due to high level of water pollution, both water efficiency and pollution are key material issues for the industry. Material efficiency and establishing a supply chain which takes into consideration environmental factors is significant. Overall environmental management, green products and energy efficiency are few other important key issues. On the social front, the safety of employees is the foremost material issue for the companies in the industry, so as to provide for safe working conditions for the employees. Issues such as board independence, compensation and diversity are relevant to the industry on the governance front. Pothys Group is a family run entity with strong presence in the South Indian retail garment industry. 'Pothys' is one of the Brands associated with the "Myntra for Earth" store. 'Myntra for Earth' store is a dedicated online platform for sustainable products which focuses on handloom and handcrafted, organic, natural-dyed, recyclable and eco-friendly products. This association underscores the Group's awareness towards its environmental responsibilities. Also the Group takes measures to ensure the safety and well-being of its employees. Post the introduction of Covid-19 vaccines in the country, the Group ensured that all its employees are vaccinated and also incorporated various safety measure in its showrooms to ensure the safety of its employees and customers.

Rating Sensitivities

Not applicable

All Covenants

None

Liquidity Position: Adequate

The Group has adequate liquidity marked by healthy cash accruals against debt repayment obligations. The Group generated net cash accruals of Rs.408.69 crore in FY2023(Prov.). The average bank limit utilisation of the Group for twelve months ended September, 2023 ranged between 60-70 percent. The current ratio stood moderate at 1.48 times as on March 31, 2023(prov.) as against 1.35 times as on March 31, 2022. Unencumbered cash and bank balance stood at Rs.34.26 Cr as on March 31, 2023(prov.).

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	4946.11	3274.94
PAT	Rs. Cr.	357.26	255.05
PAT Margin	(%)	7.22	7.79
Total Debt/Tangible Net Worth	Times	1.05	1.24
PBDIT/Interest	Times	5.70	4.43

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Aug 2022	Term Loan	Long Term	0.55	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	16.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	19.10	ACUITE A- Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	6.71	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	70.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.74	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	4.90	ACUITE A- Stable (Reaffirmed)
27 Apr 2022	Cash Credit	Long Term	30.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	0.55	ACUITE A- Stable (Assigned)
	Proposed Long Term Loan	Long Term	6.71	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	16.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	19.10	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	70.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	2.74	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	4.90	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE A- Reaffirmed & Withdrawn
City Union Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	70.00	ACUITE A- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A- Reaffirmed & Withdrawn
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A- Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	6.71	Not Applicable Withdrawn
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.90	ACUITE A- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	19.10	ACUITE A- Reaffirmed & Withdrawn
City Union Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.55	ACUITE A- Reaffirmed & Withdrawn
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.74	ACUITE A- Reaffirmed & Withdrawn

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Thejaswini P V Senior Analyst-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.