

Rating Advisory

February 19, 2019 | Mumbai

TCNS Clothing Co. Limited

Advisory as on February 19, 2019

This rating advisory is provided in relation to the rating of TCNS Clothing Co. Limited

The key rating sensitivity factors for the rating include:

- Working capital management
- Capital expenditure (capex) plans and their funding
- Scale of operations and profitability

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from TCNS Clothing Co. Limited (TCNS) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If TCNS continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Company

Established in December 1997 and promoted by Mr O S Pasricha and Mr A S Pasricha, TCNS manufactures and retails ethnic and fusion women's wear. Garments are retailed through exclusive stores, multi-brand outlets, and chains such as Lifestyle, Reliance, Pantaloons, Big Bazaar, and Shoppers Stop. It has 352 exclusive stores in more than 30 cities as on date.

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Rating Rationale

March 31, 2018 | Mumbai

TCNS Clothing Co. Private Limited *Ratings upgraded to 'CRISIL A+/Stable/CRISIL A1+'*

Rating Action

Total Bank Loan Facilities Rated	Rs.75 Crore
Long Term Rating	CRISIL A+/Stable (Upgraded from 'CRISIL A/Stable')
Short Term Rating	CRISIL A1+ (Upgraded from 'CRISIL A1')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its ratings on the bank facilities of TCNS Clothing Co. Private Limited (TCNS) to '**CRISIL A+/Stable/CRSIL A1+**' from 'CRISIL A/Stable/CRISIL A1'.

The upgrade reflects steady improvement in business risk profile, while sustenance of its strong financial risk profile. Healthy demand from existing brands - W and Auerlia - and higher owned exclusive brand outlets (EBOs) have strengthened business risk profile. Revenue grew at a compounded annual rate of 45% over the four years through fiscal 2017, and is expected to grow over 25% in the current fiscal (to around Rs 900 crore). Growth in turnover is backed by increase in EBOs and overall touch points of sale, and should continue due to strong brand recall and addition of stores in new geographies.

Increasing revenue contribution from EBOs, cautious approach towards sales promotion, and change in product mix have led to consistent improvement in operating margin. The margin improved 22% in fiscal 2017 from 19.7% in fiscal 2016, and is expected to sustain this performance over the medium term. However, successful ramping up of stores in new geographies will remain a key sensitivity factor.

Healthy pick-up in revenue, and better margin have substantially increased cash accrual, which is expected to rise to Rs 130 crore in fiscal 2018 from Rs 85 crore the previous fiscal. Accrual is likely to improve to Rs 140-160 crore annually over the medium term, and should be more than sufficient to service routine capital expenditure (capex) and incremental working capital requirement. Liquidity is expected to be supported over the medium term by healthy unutilised cash accruals, which is likely to remain unencumbered and along with sparsely used bank lines.

The ratings reflect the company's strong brand equity, focus on design and marketing, pan-India presence, and an established market position in the women's ethnic wear segment. The ratings also factor in healthy gearing and debt protection metrics. These strengths are partially offset by large working capital requirement, and exposure to intense competition.

Key Rating Drivers & Detailed Description

Strengths

* Healthy business risk profile

Business risk profile is underpinned by the strong brand equity, large retail footprint, and an in-house design team. As on September 2017, products are sold through more than 3,000 touch points. Garments are retailed under the W, Aurelia, and Wishful brands, which cater to different segments and have specific pricing strategies.

* Strong financial risk profile

Total outside liabilities to adjusted debt (TOLANW) is expected to remain below 0.5 time over the medium term due to strong network and low dependency on borrowings. Debt protection metrics are expected to be robust on account of low reliance on external debt, and healthy profitability levels.

Weaknesses

* Working-capital-intensive operations

Operations are highly working capital intensive, as reflected in gross current assets of around 157 days as on March 31, 2017. The business model necessitates conceptualisation and manufacturing of garments well in advance, and maintenance of a large number of units for each season, resulting in inventory of around 121 days as on March 31, 2017. Receivables improved to around 59 days as on March 31, 2017, from 125 days as on March 31, 2014, as growing number of self-managed stores led to higher cash sales. Working capital requirement is met via debt and creditors. With improvement in scale, bank lines are sparsely utilised, but dependence on creditors still persists. Over the medium term, operations are expected to remain working capital intensive.

* Exposure to intense competition in women's retail ethnic wear segment

The women's retail ethnic wear segment is becoming increasingly competitive, notwithstanding the strong growth momentum. The company has been ramping up its retail distribution network and advertising campaigns to register growth and maintain brand awareness. However, other established brands, such as Biba, Fabindia, Meena Bazaar, Global Desi, and Anokhi, in addition to a number of regional brands, are also embarking on similar strategies. Furthermore, the ever-evolving nature of trends makes it imperative to revamp portfolio periodically. Updating of portfolio will, therefore, remain a rating sensitivity factor.

Outlook: Stable

CRISIL believes TCNS will continue to benefit over the medium term from its healthy brand recognition, pan-India presence, established market position, and strong financial risk profile. The outlook may be revised to 'Positive' if significant growth in revenue, stable operating margin, and efficient working capital management strengthen key credit metrics. The outlook may be revised to 'Negative' if a significant stretch in working capital requirement, decline in profitability, or a large debt-funded capital expenditure or inorganic expansion weakens key credit metrics.

About the Company

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Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs cr	709.76	555.82
Profit after tax (PAT)	Rs cr	71.58	62.51
PAT margin	%	10.08	11.19
Adjusted debt/adjusted networkth	Times	0.03	0.23
Interest coverage	Times	63.3	25.0

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	1	CRISIL A1+
NA	Bill Discounting	NA	NA	NA	15	CRISIL A+/Stable
NA	Cash Credit	NA	NA	NA	21	CRISIL A+/Stable
NA	Letter of Credit	NA	NA	NA	28	CRISIL A1+
NA	Overdraft	NA	NA	NA	10	CRISIL A1+

Annexure - Rating History for last 3 Years

Instrument	Current			2018 (History)		2017		2016		2015		Start of 2015
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/S T	46	CRISIL A+/Stable / CRISIL A1+		No Rating Change		No Rating Change	08-12-16	CRISIL A/Stable	10-11-15	CRISIL BBB+/Positive	CRISIL BBB/Stable
Non Fund-based Bank Facilities	LT/S T	29	CRISIL A1+		No Rating Change		No Rating Change	08-12-16	CRISIL A1	10-11-15	CRISIL A2	CRISIL A3+

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	1	CRISIL A1+	Bank Guarantee	1	CRISIL A1
Bill Discounting	15	CRISIL A+/Stable	Cash Credit	38	CRISIL A/Stable
Cash Credit	21	CRISIL A+/Stable	Letter of Credit	15	CRISIL A1
Letter of Credit	28	CRISIL A1+	Long Term Loan	20.5	CRISIL A/Stable
Overdraft	10	CRISIL A1+	Overdraft	.5	CRISIL A/Stable
Total	75	--	Total	75	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Retailing Industry](#)

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