

Rating Advisory

May 17, 2019 | Mumbai

Advisory as on May 17, 2019

This rating advisory is provided in relation to the rating of Rupa & Company Limited.

CRISIL vide its publication dated April 30, 2019 highlighted the aspect of non-co-operation by Rupa & Company Limited.

Rupa & Company Limited has now initiated cooperation, has confirmed timeliness in debt servicing for April 2019 and has also provided 'No Default Statement' dated May 16, 2019.

You may access the Rating Rationale as appended below.

Rating Rationale

July 31, 2018 | Mumbai

Rupa & Company Limited

Long-term rating upgraded to 'CRISIL AA-/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.293 Crore
Long Term Rating	CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')
Short Term Rating	CRISIL A1+ (Reaffirmed)
Rs.180 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its rating on the long-term bank loan facilities of Rupa & Company Limited (Rupa) to '**CRISIL AA-/Stable**' from 'CRISIL A+/Positive' and has reaffirmed its rating on the short-term facilities and commercial paper at 'CRISIL A1+'.

The upgrade reflects CRISIL's belief that Rupa's business risk profile will strengthen further over the medium term, supported by increasing share of business from premium and super -premium brands, established pricing power and strong operating efficiency thus leading to stronger cash generation from operations.

Rupa is expected to sustain its growth momentum and register about 10% CAGR (compound annual growth rate) revenue growth over the medium term, backed by dominant market position in the basic and mid-premium category coupled with its ability in terms of garnering incremental revenues from the global brands present in its portfolio. Its operating margin, which sustained at about 13% over last three fiscals, is expected to remain in the range of 13 to 14% supported by cost control initiatives, healthy product mix and increasing scale of operations.

The rating action also reflects CRISIL's expectation that Rupa will sustain its robust financial profile over the medium term.

The rating continues to reflect strong business risk profile of the group primarily on account of established its position in the domestic hosiery industry over the past three decades coupled with robust financial risk profile as reflected by its healthy network, low gearing and healthy debt protection metrics and strong the liquidity risk profile. These rating strengths are partially offset by large working capital requirements of the group and exposure to intensifying competition in the innerwear industry.

Analytical Approach

For arriving at its ratings, CRISIL has combined the business and financial risk profiles of Rupa and its wholly owned subsidiaries, Euro Fashion Inners International Pvt Ltd (Euro), Imoogi Fashions Pvt Ltd (Imoogi), and Oban Fashions Pvt Ltd (Oban). That's because all these companies, together referred to as the Rupa group, have significant operational and financial linkages.

Key Rating Drivers & Detailed Description

Strengths

* **Strong business risk profile:** The group has established its position in the domestic hosiery industry over the past three decades. The industry, particularly the economy segment, is intensely competitive. But the group benefits from its strong brand recall in the premium and economy segments. It has over 10 sub-brands and caters to all segments' economy, medium, premium, and super-premium. Furthermore, acquisition of license rights for certain products of French Connection Group PLC (FCUK brand) and Fruit of the Loom, INC. (Fruit of the Loom brand) is expected to support the business profile further.

* **Robust financial risk profile:** The networth is strong at Rs 483. crores, backed by steady accretion to reserves, while the gearing is low at 0.24 time as on March 31, 2018, thus enhancing financial flexibility, especially to cope with sudden changes in business conditions. The gearing is expected to remain low over the medium term as well, in the absence of any large capital expenditure (capex) plans. Debt protection metrics too remained strong with interest coverage at 18.63 times and net cash accruals to total debt at 0.66 time for fiscal 2018.

* **Strong Liquidity:** The Rupa group has strong liquidity, marked by healthy cash accruals, and low bank limit utilization. Accrual of around Rs. 70-80 crores per annum should comfortably cover negligible term debt obligation over the medium term.

Weakness

* **Large working capital requirement:** Intense competition in the hosiery industry necessitates offering substantial credit to distributors, and maintaining large inventory to minimise delays in delivery to customers. Inventory management has, however, improved considerably with a focus on optimising production in line with sales patterns.

* **Exposure to intensifying competition in the innerwear industry:** India's innerwear market is dominated by the unorganised sector, despite the robust market potential for branded innerwear, leading to intense competition. Competition could also increase with the advent of other established foreign brands through the franchisee route, strong domestic readymade garment manufacturers venturing into innerwear segments, and other large players spending heavily on brand-building and product-positioning. Intensifying competition could hence result in market challenges for players in the industry, including Rupa.

Outlook: Stable

CRISIL expects the Rupa group's business profile will continue to improve over the medium term due to management's focus on improving working capital management and benefit to be derived from the license acquired for FCUK and Fruit of the Loom brand products. CRISIL also believes that group's strong market position and established distribution network will continue to support its business risk profile over the medium term. The outlook may be revised to 'Positive' in case of significant improvement in the overall business risk profile of the group on account of increase in scale of operations coupled with improvement in operating margins with higher contribution from the premium and super-premium brands while sustaining its working capital management, robust financial risk profile and strong liquidity risk profile. The outlook may be revised to 'Negative' in case of pressure on operating margin or in case it undertakes a large debt funded capital expenditure or acquisition plan thereby adversely impacting its financial risk profile.

About the Company

Rupa, incorporated in 1985, is promoted by the Kolkata-based Agarwala brothers. The company manufactures knitted innerwear, casual wear, and thermal wear for men, women, and children. The Agarwala family has been in this business since 1968 through proprietorship and partnership firms. After incorporation, Rupa took over the business of Binod Hosiery, a partnership firm of the Agarwala brothers.

Euro, incorporated in 2005 in Mumbai, owns the Euro brand, whereas Imoogi, incorporated in 2010 in Kolkata, owns the Imoogi brand. Oban, incorporated in 2015, has acquired the exclusive licence from FCUK to develop, manufacture, market, and sell innerwear, socks, leggings and sleepwear with brand name FCUK in India, effective April 2016.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	1231.92	1093.76
Profit after tax (PAT)	Rs crore	86.23	72.25
PAT margin	%	7.00	6.60
Adjusted debt/adjusted networth	Times	0.24	0.21
Interest coverage	Times	18.63	13.46

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 crore)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	278	CRISIL AA-/Stable
NA	Bank Guarantee	NA	NA	NA	4	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	1	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	10	CRISIL AA-/Stable
NA	Commercial Paper	NA	NA	7-365 days	180	CRISIL A1+

Annexure - Rating History for last 3 Years

		Current		2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	180.00	CRISIL A1+			28-07-17	CRISIL A1+	08-07-16	CRISIL A1+	06-11-15	CRISIL A1+	--
								25-02-16	CRISIL A1+	15-07-15	CRISIL A1+	
Fund-based Bank Facilities	LT/ST	340.00	CRISIL AA-/Stable			28-07-17	CRISIL A+/Positive	08-07-16	CRISIL A+/Positive/CRISIL A1+	06-11-15	CRISIL A+/Stable/CRISIL A1+	CRISIL A+/Stable/CRISIL A1
								25-02-16	CRISIL A+/Stable/CRISIL A1+	15-07-15	CRISIL A+/Stable/CRISIL A1+	
Non Fund-based Bank Facilities	LT/ST	5.00	CRISIL A1+			28-07-17	CRISIL A1+	08-07-16	CRISIL A1+	06-11-15	CRISIL A1+	CRISIL A1
								25-02-16	CRISIL A1+	15-07-15	CRISIL A1+	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	4	CRISIL A1+	Bank Guarantee	4	CRISIL A1+
Cash Credit	278	CRISIL AA-/Stable	Cash Credit	278	CRISIL A+/Positive
Letter of Credit	1	CRISIL A1+	Letter of Credit	1	CRISIL A1+
Proposed Long Term Bank Loan Facility	10	CRISIL AA-/Stable	Proposed Long Term Bank Loan Facility	10	CRISIL A+/Positive
Total	293	--	Total	293	--

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](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

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