

Rating Rationale

May 24, 2019 | Mumbai

TCNS Clothing Co. Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.75 Crore
Long Term Rating	CRISIL A+/Stable
Short Term Rating	CRISIL A1+

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on the bank facilities of TCNS Clothing Co. Limited (TCNS) continues to reflect the company's strong brand equity, its focus on design and marketing, the pan-India market reach, and established market position in the women's ethnic wear segment. The ratings also factor in the strong financial risk profile. These strengths are partially offset by the large working capital requirement, and exposure to intense competition in the textile garments business.

Key Rating Drivers & Detailed Description

Strengths:

* **Healthy business risk profile:** Business risk profile is underpinned by TCNS' strong brand equity, large retail footprint, and an in-house design team. Garments are retailed under the W, Aurelia, and Wishful brands, which cater to different segments, through specific pricing strategies.

* **Strong financial risk profile:** Minimal debt as on March 31st 2018, will continue to keep gearing low, close to zero levels. Debt protection metrics were comfortable, marked by interest coverage and net cash accrual to total debt ratios of 233 times and 425 times, respectively, for fiscal 2018, also aided by healthy operating margin. Gearing and debt protection metrics is expected to remain comfortable over the medium term on account of minimum debt levels

Weaknesses:

* **Working capital-intensive operations:** Gross current assets (GCA) are estimated to be around 180-200 days as on March 31st 2019 on account of high inventory levels and moderate debtor days. GCA were high, around 188 days as on March 31, 2018, led by inventory and receivables of around 123 days and 61 days, respectively. The business model necessitates conceptualisation and manufacturing of garments well in advance, and hence, maintenance of large number of units for each season, resulting in large inventory. With improvement in scale, bank limit has been utilised sparsely, though dependence on creditors persists.

* **Exposure to intense competition in the women's retail ethnic wear segment:** Competition in the women's retail ethnic wear segment is becoming intense, notwithstanding the strong growth momentum. The company has been ramping up its retail distribution network and advertising campaigns to sustain growth and maintain brand awareness. However, other established brands, such as Biba, Fab India, Meena Bazaar, Global Desi, and Anokhi, in addition to several regional brands, also pursue such strategies. Furthermore, the ever-evolving nature of trends makes it imperative to revamp the portfolio periodically. The company's ability to constantly innovate and update its portfolio will, therefore, remain a rating sensitivity factor.

Liquidity

Liquidity remains adequate, marked by large cash accrual, low bank limit utilisation and a healthy current ratio. Cash accrual of Rs 150-200 crore is expected in the medium term, against no maturing term debt. Bank limit utilisation was low around 0.25% for the 12 months ended November 30, 2018. Cash and bank balance as on March 31st 2018 was of Rs 36.6 crore. Further, current ratio stood at 3.4 times as on March 31st, 2018.

Outlook: Stable

CRISIL believes TCNS will continue to benefit 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 the key credit metrics. The outlook may be revised to 'Negative' if a significant stretch in working capital cycle, further decline in profitability, or a large capital expenditure or inorganic expansion, weaken the key credit metrics.

About the Company

TCNS was set up in December 1997, by the promoters, Mr. OS Pasricha and Mr. AS Pasricha. The company 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.

Key Financial Indicators

As on / for the period ended March 31		2018	2017
Operating income	Rs crore	842.4	711.0
Reported profit after tax	Rs crore	98	15
PAT margin	%	11.6	2.1
Adjusted Debt/Adjusted Network	Times	0.0	0.03
Interest coverage	Times	233.8	63.2

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	Cash Credit*	NA	NA	NA	36.0	CRISIL A+/Stable
NA	Working Capital Facility*	NA	NA	NA	31.0	CRISIL A+/Stable
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	8.0	CRISIL A1+

*Interchangeable with Letter of Credit and Bank Guarantee

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	75.00	CRISIL A+/Stable/ CRISIL A1+	25-04-19	CRISIL A+/Stable/ CRISIL A1+	31-03-18	CRISIL A+/Stable/ CRISIL A1+			08-12-16	CRISIL A/Stable	CRISIL BBB+/Positive
Non Fund-based Bank Facilities	LT/ST			25-04-19	CRISIL A1+	31-03-18	CRISIL A1+			08-12-16	CRISIL A1	CRISIL A2

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
Cash Credit*	36	CRISIL A+/Stable	Bank Guarantee	1	CRISIL A1+
Proposed Short Term Bank Loan Facility	8	CRISIL A1+	Bill Discounting	15	CRISIL A+/Stable
Working Capital Facility*	31	CRISIL A+/Stable	Cash Credit	21	CRISIL A+/Stable
--	0	--	Letter of Credit	28	CRISIL A1+
--	0	--	Overdraft	10	CRISIL A1+
Total	75	--	Total	75	--

*Interchangeable with Letter of Credit and Bank Guarantee

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](#)
[CRISILs Approach to Recognising Default](#)
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