

Rating rationale

TCNS Clothing Co Ltd

Outlook revised to 'Negative'; ratings reaffirmed

Rating action

Total bank loan facilities rated	Rs 75 crore
Long-term rating	CRISIL A+/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Short-term rating	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for details of instruments and bank facilities

Detailed rationale

CRISIL has revised its outlook on the long-term bank facilities of TCNS Clothing Co Ltd (TCNS) to '**Negative**' from 'Stable' while reaffirming the rating at '**CRISIL A+**'; the rating on the short-term bank facility has been reaffirmed at '**CRISIL A1+**'.

The revision in outlook reflects CRISIL's belief that the business risk profile of TCNS will remain under pressure in fiscal 2021 on account of the Covid-19 induced lockdown and restrictions thereof. This is expected to lead to weakening of the company's business risk profile, driven by decline in scale of operations and operating profitability due to inability of stores to register footfalls and sales in line with earlier years. Revenue is expected to be low around Rs 650 crore in fiscal 2021 on account of the Covid-19-led lockdown in the first quarter of fiscal 2021 and reduced footfalls at stores. Also, higher rentals and other fixed costs could lead to lower operating margins.

Lower revenue and operating margin are likely to impact the debt protection metrics, though these will remain comfortable. Furthermore, the capital structure was comfortable, with nil gearing and the total outside liabilities to tangible networth ratio at 0.20 time as on March 31, 2020 and estimated to remain comfortable going forward

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

Analytical approach: Not applicable

Key rating drivers and detailed description

Strengths

Healthy business risk profile: The 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, Elleven and Wishful brands, which cater to different segments, through specific pricing strategies.

Strong financial risk profile and liquidity: The company had nil debt as on March 31, 2020. Debt protection metrics were robust, indicated by interest coverage of 425 times in fiscal 2020. Gearing and debt protection metrics will remain comfortable over the medium term on account of negligible debt. Liquid funds of around Rs 170 crore in form of cash and mutual funds as on March 31, 2020.

Weaknesses

Large working capital requirement: Gross current assets (GCAs) were at 188 days (net off cash of Rs 53.22 crore) as on March 31, 2020, driven by large inventory of 113 days and moderate receivables of 56 days. 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, the bank limit was utilised sparsely, though dependence on payables 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-changing 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 key monitorable.

Outlook: Negative

CRISIL believes TCNS' business risk profile will remain under pressure for fiscal 2021 on account of impact of Covid and reduced footfalls at operational stores due to the same.

Rating sensitivity factors

Upside scenario

- Growth in cash accrual by 30% driven by lower than anticipated reduction in revenues and operating margins
- Improvement in working capital cycle

Downside scenario

- Decline in operating margin by over 200 basis points as compared to fiscal 2020
- Substantial increase in working capital requirement, weakening the liquidity and financial risk profile

Liquidity: Strong

Liquidity is supported by sizeable cash accrual, nil bank limit utilisation and healthy current ratio. Cash accrual of Rs 30-90 crore is expected over the medium term against nil debt obligation. The bank limit remained unutilised for the eight months through March 2020. Cash and bank balance and investment in mutual funds was Rs 53.22 crore and Rs 118 crore respectively as on March 31, 2020. Further, current ratio was at 4.73 times as on March 31, 2020.

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 Trends, Pantaloons, Big Bazaar, and Shoppers Stop. It has 595 exclusive stores in more than 100 cities as on date.

Key financial indicators

As on / for the period ended March 31		2020	2019
Operating income	Rs crore	1,148.67	1,149.35
Reported profit after tax (PAT)	Rs crore	69.41	131.43
PAT margin	%	6	11.4
Adjusted debt / adjusted networkth	Times	0.0	0.04
Interest coverage	Times	119.7	350.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Annexure - Details of instruments

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	36.0	Not applicable	CRISIL A+/Negative
NA	Working capital facility	NA	NA	NA	31.0	Not applicable	CRISIL A+/Negative
NA	Proposed short-term bank loan facility	NA	NA	NA	8.0	Not applicable	CRISIL A1+

Annexure - Details of bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs crore)	Rating	Facility	Amount (Rs crore)	Rating
Cash credit*	36.0	CRISIL A+/Negative	Cash credit	36.0	CRISIL A+/Stable
Working capital facility#	31.0	CRISIL A+/Negative	Working capital facility	31.0	CRISIL A+/Stable
Proposed short- term bank loan facility	8.0	CRISIL A1+	Proposed short- term bank loan facility	8.0	CRISIL A1+
Total	75	--	Total	75	--

*Interchangeable with letter of credit and bank guarantee

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