CRISIL Ratings

Rating Rationale

July 10, 2023 | Mumbai

Vedant Fashions Limited

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

Rating Action

Total Bank Loan Facilities Rated	**Rs.120 Crore**
Long Term Rating	**CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')**

Rs.10 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities of Vedant Fashions Ltd (VFL) to **'CRISIL AA/Stable'** from 'CRISIL AA-/Stable' and reaffirmed its 'CRISIL A1+' rating on the commercial paper programme of VFL.

The upgrade reflects VFL's strong credit risk profile driven by healthy business risk profile and debt-free operations. The strong brand recall of the Manyavar brand in the Indian Wedding and Celebration Wear segment has enabled the company to generate Rs 1,326 crore in fiscal 2023 and emerge as a pioneer in men's Indian Wedding and Celebration Wear segment. The resilient business model of asset light franchisee business model along with effective automated supply chain management has helped VFL improve its profitability and return on capital employed (ROCE). Cash accrual is estimated to be around Rs 430 crore in fiscal 2023 (out of this Rs 218 crore was dividend) and liquidity was around Rs 800 crore as on March 31, 2023. While the bank limit remains unutilised, the gearing was nil as on this date and the interest coverage ratio was strong at more than 22 times for fiscal 2023. The working capital cycle has also improved to pre-pandemic levels and is getting better. The company maintains around 35-40% of the receivables as security deposits received from franchisees, which protects the company from any losses on account of non recovery.

The performance of the company is expected to be robust over the medium term with increase in share of branded sales in the Indian Wedding and Celebration Wear wear segment, no pandemic-related restrictions on the number of people attending weddings, availability of more number of auspicious dates for weddings during the year, increased vaccination, festive season sales, higher disposable income and increasing culture of appropriate Indian Wedding and Celebration Wear dressing as per occasion among the youth. Also, VFL is increasing its foot print through deeper penetration of new and emerging brands like Twamev, Mohey and Manthan and strategic advertisement campaigns. Women's wear is being sold under Twamev and Mohey brand. Profitability and the financial risk profile, including liquidity, should be maintained in the absence of any significant capital expenditure (capex).

The ratings continue to reflect VFL's established presence in the men's Indian Wedding and Celebration Wear clothing segment, strong operating efficiencies and healthy financial risk profile, particularly liquidity. These strengths are partially offset by susceptibility to competition in ethnic wear segment.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong brand positioning of Manyavar in the Indian Wedding and Celebration Wear segment:** The company's business risk profile is underpinned by the strong brand positioning of Manyavar in the Indian Wedding and Celebration Wear segment and large retail footprint through exclusive brand outlets (EBOs) having an area of 15 lakh square feet across the country. Strong brand recall of Manyavar has enabled the company to generate turnover of Rs 1,326 crore in fiscal 2023 and emerge as a pioneer in men's Indian Wedding and Celebration Wear segment. As the company is into Indian Wedding and Celebration Wear category, demand for kurtas and sherwanis, among other traditional wear, was observed during the festive and marriage seasons, even during the pandemic. Also, with VFL increasing its footprint through deeper penetration of new and emerging brands like Twamev, Mohey and Manthan and strategic advertisement campaigns, revenue is expected to grow further over the medium term.

- **Strong operating efficiencies in the business:** The asset light franchisee business model along with effective automated supply chain management has enabled the company to stay resilient and sustain its operating margin in an environment where the profitability of other readymade garment players had declined during the pandemic. The EBITDA margin was healthy and sustained at over 45% for the three fiscals through 2023. In fiscals 2022 and 2023, VFL also experienced better absorption of fixed costs and reduction in director remuneration from 2.1% of sales in fiscal 2022 to 1% in fiscal 2023. Debtor collection has also improved. The company maintains around 35-40% of the receivables as security deposits received from franchisees, which protects the company from any losses due to non recovery.

- **Robust financial risk profile including liquidity:** The networth is strong, estimated at around Rs 1,395 crore as on March 31, 2023. High cash accrual should limit dependence on debt to fund capex and working capital requirement. Absence of any gearing and healthy profitability led to strong debt protection metrics, with the interest coverage ratio estimated at around 22 times for fiscal 2023.

Weakness:
- **Susceptibility to competition and economic downturns:** Changes in fashion trends and exposure to competition in women's celebration and wedding wear segment continue to constrain the business risk profile. Players such as VFL need to constantly innovate and adapt to changing client preferences while maintaining their brand identity and product quality. Economic downturns also affect consumer spending on lifestyle items such as clothing.

Liquidity: Superior
Bank limit utilisation was nil during the 12 months through March 2023 (it has been nil over the three fiscals through 2023). VFL is expected to generate healthy cash accruals per fiscal against no term debt obligation over the medium term, and hence will cushion liquidity. VFL had declared dividend of Rs 9 per share in fiscal 2023. Despite this dividend the liquidity profile of the company remains very strong. A high cash and bank balance and liquid investments in debentures, bonds and mutual funds of around Rs 800 crore as on March 31, 2023, support liquidity. Low gearing and moderate networth support VFL's financial flexibility, and provide the financial cushion required in case of any adverse conditions or downturn in the business.

Outlook: Stable
VFL should continue to benefit from its healthy and strong brand recognition, pan-India presence, established market position and strong financial risk profile.

Rating Sensitivity factors
Upward factors:

- 25% growth in turnover driven by fast uptake in new EBO's resulting from substantial diversification from men's ethnic wear
- Sustenance of healthy financial risk profile, particularly liquidity

Downward factors:
- Stretched working capital cycle or in EBITDA leading to ROCE of below 30%
- Large, debt-funded capex or inorganic expansion

About the Company
Vedant Fashions Limited (formerly known as Vedant Fashions Private Limited) is a public company domiciled in India and was incorporated on May 24, 2002. The Company is primarily engaged in manufacturing, trading and sale of readymade ethnic wear for men, women and kids primarily in India under the brand names Manyavar, Mohey, Mebaz, Twamev and Manthan. The company is listed on National Stock Exchange and Bombay Stock Exchange.

The Company was converted into a public limited Company under the Companies Act, 2013 on August 25, 2021 and consequently, the name was changed to "Vedant Fashions Limited".

Key Financial Indicators

As on / for the period ended March 31		2023	2022
Revenue	Rs crore	1326	1008
Profit after tax (PAT)	Rs crore	423	308
PAT margin	%	32	31
Adjusted debt / adjusted networth	Times	-	-
Interest coverage	Times	22	18

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Overdraft Facility	NA	NA	NA	90	NA	CRISIL AA/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	20	NA	CRISIL AA/Stable
NA	Working Capital Demand Loan	NA	NA	NA	10	NA	CRISIL AA/Stable

NA	Commercial paper	NA	NA	7 to 365 days	10	Simple	CRISIL A1+

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	120.0	CRISIL AA/Stable		--	11-07-22	CRISIL AA-/Stable	30-07-21	CRISIL AA-/Stable	27-07-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--		--		--		--	CRISIL AA-/Stable
Commercial Paper	ST	10.0	CRISIL A1+		--	11-07-22	CRISIL A1+	30-07-21	CRISIL A1+	27-07-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Overdraft Facility	**30**	**ICICI Bank Limited**	**CRISIL AA/Stable**
Overdraft Facility	**40**	**Kotak Mahindra Bank Limited**	**CRISIL AA/Stable**
Overdraft Facility	**20**	**HDFC Bank Limited**	**CRISIL AA/Stable**
Proposed Fund-Based Bank Limits	**20**	**Not Applicable**	**CRISIL AA/Stable**
Working Capital Demand Loan	**10**	**Kotak Mahindra Bank Limited**	**CRISIL AA/Stable**

Criteria Details

Links to related criteria
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Approach to Financial Ratios
CRISILs Criteria for rating short term debt

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