

## Rating Rationale

July 05, 2024 | Mumbai

### Vedant Fashions Limited

Ratings reaffirmed at 'CRISIL AA/Stable/CRISIL A1+'

#### Rating Action

Total Bank Loan Facilities Rated	Rs.120 Crore
Long Term Rating	CRISIL AA/Stable (Reaffirmed)

Rs.10 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
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*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 reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the long-term bank facilities and commercial paper of Vedant Fashions Ltd (VFL).

The ratings continue to reflect VFL's established presence in the men's ethnic clothing segment, strong operating efficiency, and robust financial risk profile. These strengths are partially offset by its susceptibility to intense competition.

#### Key rating drivers and detailed description

##### Strengths:

- Established market position:** The business risk profile is underpinned by the company's strong brand in the ethnic wear segment and large retail footprint with more than 660 exclusive brand outlets (EBOs) across the country and 16 EBOs across 13 international cities; covering an area of more than 17 lakh square feet (sq ft). This enabled the company to generate turnover of Rs 1,365 crore in fiscal 2024, despite marginal demand slowdown during the fiscal on account of lower number of wedding dates. Demand for kurtas and sherwanis was sustained during the festival and marriage seasons even during the Covid-19 pandemic. With VFL increasing its footprint through deeper penetration of new and emerging brands such as Twamev, Mohey and Manthan and strategic advertisement campaigns, revenue is expected to grow further over the medium term.
- Strong operating efficiency:** 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 at 45-48% over the last three fiscals. The company also maintains 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:** Networth is strong at Rs 1,430.60 crore as on March 31, 2024. Limited reliance on any external debt and healthy profitability led to strong debt protection metrics, as reflected in interest coverage ratio of 15 times in fiscal 2024.

##### Weakness:

- Susceptibility to intense competition and economic downturns:** Changes in fashion trends and exposure to intense competition constrain the business risk profile, limiting scalability. Players such as VFL need to constantly innovate and adapt to changing client preferences while maintaining brand identity and product quality. Also, economic downturns affect consumer spending on lifestyle items, such as clothing. Furthermore, being present majorly in the menswear segment constrains the market position. Out of total topline of 1365 Cr in FY2024, more than 80% was generated from men's wear. Diversification and scale up of womenswear and kids wear will be monitorable.

#### Liquidity: Superior

Bank limit utilisation was nil for the 12 months through February 2024. Cash accrual is expected to be Rs 470-500 crore which should further aid liquidity in the absence of any term debt obligation. In addition, VFL maintains more than Rs 900 crore of liquid investments in mutual funds and bonds.

#### Outlook: Stable

VFL will continue to benefit from healthy brand recognition, pan-India presence, established market position and strong financial risk profile.

## Rating sensitivity factors

### Upward factors

- More than 25% growth in turnover with diversification in revenue profile with higher contribution from women and kids segment and sustenance of operating margins
- Sustenance of healthy financial risk profile and liquidity

### Downward factors

- Decline in earnings before interest, tax, depreciation and amortisation (EBITDA) below 30%
- Large, debt-funded capital expenditure (capex) or inorganic expansion

### About the company

VFL was set up as a proprietorship firm by members of the Kolkata-based Modi family. The firm was reconstituted as a private limited company in 2002. The company manufactures and retails ethnic wear for men and women. It markets its clothing through EBOs and multibrand outlets under the brands Manyavar and Mohey.

The company got listed on the Bombay Stock Exchange and the National Stock Exchange in February 2022.

### Key financial indicators

As on / for the period ended March 31		2024	2023
Operating income	Rs crore	1,364.88	1,327.12
Reported profit after tax (PAT)	Rs crore	414.57	422.89
PAT margin	%	30.3	31.87
Adjusted debt/adjusted networth	Times	0.00	0.00
Interest coverage	Times	14.84	21.71

**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 Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	20	NA	CRISIL AA/Stable
NA	Overdraft Facility	NA	NA	NA	50	NA	CRISIL AA/Stable
NA	Working Capital Demand Loan	NA	NA	NA	50	NA	CRISIL AA/Stable
NA	Commercial paper	NA	NA	7 to 365 days	10	Simple	CRISIL A1+

### Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	120.0	CRISIL AA/Stable		--	10-07-23	CRISIL AA/Stable	11-07-22	CRISIL AA-/Stable	30-07-21	CRISIL AA-/Stable	CRISIL AA-/Stable
Commercial Paper	ST	10.0	CRISIL A1+		--	10-07-23	CRISIL A1+	11-07-22	CRISIL A1+	30-07-21	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	20	HDFC Bank Limited	CRISIL AA/Stable
Proposed Fund-Based Bank Limits	20	Not Applicable	CRISIL AA/Stable
Working Capital Demand Loan	50	Kotak Mahindra Bank Limited	CRISIL AA/Stable

## Criteria Details

<b>Links to related criteria</b>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Criteria for rating short term debt</a>

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