

#### November 28, 2023

# Modenik Lifestyle Private Limited: Ratings downgraded to [ICRA]A(Stable)/[ICRA]A1

### **Summary of rating action**

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long/Short term - Fund based limits	250.00	219.00	[ICRA]A (Stable)/[ICRA]A1; Ratings downgraded from [ICRA]A+ (Stable)/[ICRA]A1+
Long/Short term – Unallocated Limits		31.00	[ICRA]A (Stable)/[ICRA]A1; Ratings downgraded from [ICRA]A+ (Stable)/[ICRA]A1+
Total	250.00	250.00	

<sup>\*</sup>Instrument details are provided in Annexure-I

#### Rationale

The ratings downgrade reflects ICRA's expectation that Modenik Lifestyle Private Limited's (MLPL) credit and coverage metrics would remain under pressure in the current fiscal owing to a deterioration in the operating margins. The company's revenues fell by 9% in FY2023 to Rs. 1,195 crore. Besides, there was a steep decline in the operating margins to -1.2% in FY2023 from 10.9% in FY2022 on account of inflationary pressure, resulting in weak demand environment in the domestic innerwear industry, coupled with increasing raw material (mainly cotton yarn) prices. Intense competition from other organised players limited MLPL's ability to pass on the impact of the cost increase to the end customer. Although some improvement is expected in the operating margin in the current fiscal owing to correction in raw material prices in the recent months and lower one-time overheads (project/consultancy costs incurred in FY2023), it is unlikely to reach the levels witnessed in FY2021 and FY2022 in the near term, resulting in modest debt coverage metrics. Moreover, the ratings continue to be constrained by the working capital intensive nature of operations, reflected by high debtors and inventory days. The ratings also remain constrained by MLPL's high dependence on the economy/mid-premium segment and its low penetration in the margin-accretive premium innerwear and casual wear segments. The company's revenues and profitability are linked to macro-economic conditions, consumer confidence and spending patterns. Moreover, MLPL is vulnerable to intense competition from large branded and unorganised players in the men's innerwear market, limiting its pricing flexibility and exposing its earnings to fluctuations in yarn prices.

Nonetheless, the ratings derive comfort from the expected healthy operational and financial performance of MLPL over the medium term on the back of its established market position in the branded innerwear industry and its comfortable financial profile, characterised by a conservative capital structure and adequate liquidity position. Moreover, reliance on outsourcing for a part of the operations, and the resultant limited capex requirements have kept the company's dependence on term debt minimal over the years. Also, ICRA understands that the cash outflow towards interest payout for the compulsory convertible debentures will be made only at the end of the fiscal after meeting all the operational requirements and financial debt obligations, which lend comfort. The ratings also favourably consider MLPL's established market position, aided by a strong brand recall with a wide distribution network. MLPL is expected to post a gradual recovery in the top line in the near-to-medium term. The ratings also consider the company's financial risk profile, which is characterised by a comfortable capital structure (as reflected by a TOL/TNW of 1.3 times as on March 31, 2023).

The Stable outlook reflects ICRA's expectation of gradual recovery in MLPL's profitability and healthy operational profile that will help in clocking a comfortable revenue growth with normalisation of operating margin in the medium term. The resultant cash flow generation from operations and minimal reliance on term debt are expected to keep the company's capitalisation and coverage indicators healthy in the medium term.

www.icra.in



### Key rating drivers and their description

### **Credit strengths**

Healthy operational profile, characterised by an established and diversified brand portfolio; long presence spanning more than 30 years – MLPL has a strong operational profile, characterised by its diversified presence across the economy, midpremium and premium segments in men's, women's and kids' innerwear, through brands like Dixcy, Scott, Enamor, Dixcy Slimz, Levis etc. Each of the brands operated by the company caters to different customer segments based on the price points. With its long presence spanning more than 30 years, the company has created a niche for itself in the premium and midpremium inner wear segments. Besides an established brand portfolio, Modenik has also aggressively expanded its distribution network for products under the Dixcy umbrella. From less than 600 distributors before 2009, MLPL's network comprises more than 1,960 distributors as on date. This apart, MLPL operates more than ~50 exclusive brand outlets under Enamor and plans to open another ~50 stores in the medium term.

Asset light model of operations results in scalable business model and supports return metrics – The company operates an asset-light business model, with about 90% of its activities being outsourced to regional players on a job-work basis. While cutting is done in-house, which is the most important value addition in the industry, a considerable portion of knitting and sewing operations are outsourced, resulting in a scalable business model, which supports healthy return on capital employed.

Comfortable gearing and liquidity position – MLPL's liquidity profile has remained healthy in the past including FY2023, despite operational losses during the year on the back of its asset-light business model and no major capex undertaken in the past and moderate dependence on external debt for funding its working capital requirements. The company's liquidity position is supported by adequate unutilised lines of credit. Further, moderate dependence on debt has also supported MLPL in maintaining a comfortable capital structure, as reflected by a gearing of 0.3 times as on March 31, 2023.

#### **Credit challenges**

Deterioration in revenues and margins in FY2023; likely to remain subdued in the current fiscal despite some improvement – MLPL's revenues declined by 10% on a YoY basis to Rs. 1,195 crore in FY2023 due to weak demand environment amid inflationary pressure and intensely competitive nature of the men's innerwear industry, especially in the economy and midpremium segments. MLPL's operating margins declined to -1.2% in FY2023 from 11% in FY2022. The drastic decline was due to large quantity of orders placed by MLPL for yarn in Q4 FY2022. As a result, MLPL's raw material costs increased significantly as it used high-priced yarn during the year. This apart, MLPL operates in a very competitive industry, limiting its pricing flexibility. However, with correction in raw material prices, implementation of profitability improvement projects, absence of incremental project cost to consultants etc. would help MLPL's OPM to improve in the current fiscal, but the same would still continue to remain low. The company's ability to sustain the improvement in OPM amid rising raw material prices and intense competition, remains to be seen. The extent of margin improvement over the medium term will depend on the successful ramping up of the women's innerwear segment.

Moderate operating profitability due to higher revenue concentration in the mid-premium segment and high marketing expenses – Higher revenue concentration in the mid-premium segment and high marketing expenses over the years amid competitive pressure have resulted in a moderate operating profit margin for the company. As seen in FY2023, intense competition across the segments from other large, branded players and a large unorganised segment limit the pricing flexibility of the company, increasing pressure on the margins. High raw material prices add more concerns.

www.icra .in Page | 2



High working capital requirements in the business – The industry is characterised by high working capital requirements to support stock holding across a wide product range. Moreover, the company is required to extend moderate credit to its partners along the supply chain. Stock levels increase in the second half of the fiscal to meet the high demand for innerwear during the summer season and reduce gradually between February and July with liquidation of inventory (stock levels also rise to an extent in the second quarter for the ensuing winter season). Despite the same, lower-than-industry working capital intensity (supported by favourable credit terms enjoyed from the suppliers) and its comfortable liquidity position provide comfort.

### **Liquidity position: Adequate**

MLPL's liquidity position is expected to remain adequate on the back of free cash and bank balances (~Rs. 2 crore as on March 31, 2023) and comfortable liquidity cushion in the form of unutilised lines of credit (an average cushion of more than Rs. 80 crore between April and October 2023). The liquidity cushion remained comfortable despite a significant decline in fund flow from operations in FY2023 and H1 FY2024 as MLPL did not have any external term debt repayment obligations and the capital expenditure plans remained moderate. Going forward, ICRA expects MLPL's liquidity position to continue to be adequate on hopes of positive fund flow from operations from H2 FY2024. However, the company's ability to maintain the working capital intensity will remain a key monitorable. MLPL has no major capital expenditure plan in the near-to-medium term, which provides additional comfort.

### **Rating sensitivities**

**Positive factors** – ICRA could upgrade the ratings if there is a significant growth in scale of operations and earnings, supported by enhanced product/ brand portfolio and/or geographical presence and increasing market share while improving its debt coverage indicators. Key credit metrics, which could trigger ratings upgrade include an interest coverage above 6.0 times on a sustained basis.

**Negative factors** – ICRA could downgrade the ratings if there is sustained pressure on the operating performance or any increase in the working capital cycle, which could adversely impact the credit metrics and liquidity position of the company. Further, any large debt-funded capital expenditure could also exert pressure on the ratings. Key credit metrics, which could trigger ratings downgrade include TOL/ TNW increasing to above 1.6 times on a sustained basis.

### **Analytical approach**

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology  Rating Methodology for Entities in the Textiles Industry - Apparels
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

## About the company

Modenik Lifestyle Private Limited (MLPL, erstwhile Dixcy Textiles Private Limited), wholly owned by Advent International, is primarily involved in making and selling of innerwear for men, women and kids. The company's products are sold in the domestic market under two major brands, namely Dixcy and Enamor. This apart, the company has a licence agreement with Levis in the male innerwear segment, as per which it has design, production and marketing licence for the products sold under the Levis brand. Pursuant to the National Company Law Tribunal (NCLT) order in May 2021, Advent International (the common parent entity) had amalgamated Gokaldas Intimatewear Private Limited (GIPL) and Hinduja Investments Private Limited (HIPL) with MLPL, effective from September 16, 2019.

www.icra .in



### **Key financial indicators (audited)**

MLPL	FY2022	FY2023
Operating income	1,307	1,195
PAT	61	-68
OPBDIT/OI	10.9%	-1.2%
PAT/OI	4.6%	-5.7%
Total outside liabilities/Tangible net worth (times)	1.2	1.3
Total debt/OPBDIT (times)	0.8	-9.3
Interest coverage (times)	3.6	-0.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

		Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Instrument	Туре	Amount rated (Rs.	Amount outstanding (Rs. Crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
			crore)	*	Nov 28, 2023	Aug 02, 2023	Sep 22, 2022	Aug 19, 2021	Nov 11, 2020
	Fund-based	Lang/Chart		~160	[ICRA]A	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
1	bank	Long/Short	219.00		(Stable)/	/	/	/	/
	facilities	term			[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
		Long/Short term 31		31.00 -	[ICRA]A	[ICRA]A+(Stable)			
2	Unallocated		31.00		(Stable)/	-	-	/	-
					[ICRA]A1			[ICRA]A1+	

<sup>\*</sup>outstanding as on Sep 30, 2023

### **Complexity level of the rated instruments**

Instrument	Complexity Indicator
Long-term/ Short -term – Fund-based bank facilities	Simple
Long-term/ Short -term – Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

www.icra .in Page | 4



### **Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long/Short term - Fund based limits	-	-	-	219.00	[ICRA]A (Stable)/[ICRA]A1
NA Long/Short term - Unallocated limits		-	-	-	31.00	[ICRA]A (Stable)/[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

www.icra .in Page | 5



#### **ANALYST CONTACTS**

Jayanta Roy

+91 33 7150 1100

jayanta@icraindia.com

**Gaurav Singla** 

+91 124 4545366

gaurav.singla@icraindia.com

**RELATIONSHIP CONTACT** 

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

**Kaushik Das** 

+91 33 7150 1104

kaushikd@icraindia.com

Devanshu Gupta

+91 124 4545321

devanshu.gupta@icraindia.com

### MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

### **Helpline for business queries**

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

#### **About ICRA Limited:**

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in



#### **ICRA Limited**



## **Registered Office**

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001



### © Copyright, 2023 ICRA Limited. All Rights Reserved.

5500

### Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.