October 23, 2024

Modenik Lifestyle Private Limited: Ratings downgraded to [ICRA]A- (Negative)/ [ICRA]A2+; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund based limits	219.00	219.00	[ICRA]A- (Negative)/[ICRA]A2+; downgraded from [ICRA]A (Stable) /[ICRA]A1 and outlook revised to Negative from Stable
Long term/Short term - Unallocated	31.00	31.00	[ICRA]A- (Negative)/[ICRA]A2+; downgraded from [ICRA]A (Stable) /[ICRA]A1 and outlook revised to Negative from Stable
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the ratings of the bank lines of Modenik Lifestyle Private Limited (MLPL) considers continued pressure on its earnings in FY2024 and H1 FY2025 due to weak realisations amid intense competition in the industry. Lower earnings coupled with higher interest obligations resulted in cash losses over the last two fiscals, thus impacting its debt protection metrics.

MLPL's operating income grew marginally by 1.9% on a YoY basis to Rs. 1,217.3 crore in FY2024, primarily affected by subdued realisations although the company's sales volumes increased by ~12%. Moderation in raw material prices by ~4.5% supported a 380 bps increase in the operating margin to 2.6% in FY2024 compared to operating losses recorded in FY2023. While the operating margins are likely to expand in the current fiscal, it is unlikely to reach the past high levels (witnessed in FY2021 and FY2022) owing to continued pressure on realisation. The ratings also consider the working capital-intensive nature of operations with high inventory holding and receivable days and subdued coverage indicators. Cash losses in the last two fiscals, coupled with increase in working capital borrowings had moderated the leverage metrics in FY2024 with Total debt/TNW and TOL/TNW moderating to 0.7 times and 1.9 times, respectively in FY2024 (against 0.3 times and 1.3 times, respectively in FY2023). The ratings are also constrained by MLPL's high dependence on the economy and mid-premium segments and its relatively lower penetration in the margin-accretive premium innerwear and casual wear segments. Further, MLPL remains vulnerable to intense competition from large branded and unorganised players in the men's innerwear market, thus limiting its pricing flexibility and exposing its earnings to fluctuations in yarn prices. The company's revenues and profitability are linked to macro-economic conditions, consumer confidence and spending patterns. With improving demand environment, the volume growth is likely to rise although meaningful improvement in revenues will remain contingent on realisation support.

Nonetheless, the ratings continued to derive comfort from its established market position in the branded innerwear industry, a strong brand recall with a wide distribution network and favourable long-term demand outlook for the product segment. 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 interest payout for compulsory convertible debentures (CCDs) issued by the parent entity will be serviced after meeting all the operational requirements and financial debt obligations, which lends some comfort.

The Negative outlook reflects ICRA's expectations that the company's debt coverage metrics will continue to remain under pressure in the near-to-medium term, given the sustained realisation pressure, its impact on earnings and higher reliance on working capital borrowings.

Key rating drivers and their description

Credit strengths

Established presence and diversified brand portfolio – MLPL has a strong operational profile, characterised by its diversified presence across the economy, mid-premium 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 established presence, the company has created a niche for itself in the mid-premium inner wear segments. Besides an established brand portfolio, Modenik has also aggressively expanded its distribution network for products under the Dixcy umbrella. MLPL has 1,325 distributors, 60 exclusive brand outlets and 420 national chain stores as on March 31, 2024. While Dixcy brand products are sold through distributors, Enamor products are sold mainly through its EBOs and national chain stores. Further, MLPL has planned to add 15-20 EBOs in the current fiscal. The strong parentage of MLPL, which is ultimately held by Advent International LLC, provides some comfort.

Asset light model of operations – The company operates an asset light-business model, with about 90% of its activities 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 is outsourced, resulting in a scalable business model.

Credit challenges

Continued losses amid subdued realisations – MLPL's operating income grew marginally by 1.9% on a YoY basis to Rs. 1,217.3 crore in FY2024, primarily affected by subdued realisations although its sale volumes increased by 12%. While MLPL reported an operating profit of Rs. 31.6 crore in FY2024 compared to an operating loss of Rs. 13.8 crore in FY2023, it remained lower than the level witnessed in FY2022. Further, lower operating profitability coupled with higher interest payout towards CCDs (Rs.31.4 crore per annum) led to a net loss of Rs. 50.8 crore in FY2024 (net loss of Rs. 68.2 crore in FY2023), resulting in erosion of net worth position over the last two fiscals. Its TNW had moderated to Rs. 335.1 crore in FY2024 compared to Rs. 445.0 crore in FY2022. This coupled with rising working capital requirements in the business led to weak capital structure and moderated coverage indicators. Its Total debt/TNW and TOL/TNW moderating to 0.7 times and 1.9 times, respectively in FY2024, from 0.3 times and 1.3 times, respectively, in FY2023. Nevertheless, the revenues and profitability of the company is expected to increase over the medium term with expected improvement in demand and with conversion of CCD to equity capital by July 2026 (CCDs are convertible into equity share capital by July 2026).

Weak coverage indicators and high working capital intensity – Lower profitability and increase in working capital borrowings have weakened the coverage metrics over the last two fiscals with the interest cover moderating to 0.6 times in FY2024. The working capital intensity, as indicated by NWC/OI, increased to 29.4% as on March 31, 2024, from 26.2% as on March 31, 2023, with an increase in receivables days. 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 increased 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.

Vulnerability to consumption trends and intense competition limit margin expansion – MLPL's revenue growth prospects and in turn profitability and cash accruals, like other apparel retailers, are linked to macro-economic conditions, consumer trends and spending patterns. Further, rising competition from the branded innerwear players (with increased spend on brand building) as well as from numerous unorganised players, limit pricing flexibility of industry players (including MLPL). Further, 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.

Liquidity position: Adequate

MLPL's liquidity position is adequate, supported by an adequate buffer of ~28%, with an average utilisation of ~72% on the sanctioned lines of Rs. 219 crore during the 12-month period ending in August 2024. The liquidity cushion is expected to remain comfortable despite an expected lower fund flow from operations, supported by no external term debt repayment obligations. The capital expenditure plans remained moderate.

Rating sensitivities

Positive factors – The long-term rating outlook can be revised to Stable if there is a significant improvement in MLPL's profitability, along with an improvement in its cash flow position and debt protection metrics.

Negative factors – The ratings could be downgraded if there is any sustained pressure on revenues or earnings or any increase in the working capital cycle, which could impact the credit metrics and the 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 2.0 times on a sustained basis.

Analytical approach

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

About the company

MLPL, erstwhile Dixcy Textiles Private Limited, ultimately owned by Advent International, is primarily involved in manufacturing 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.

Key financial indicators (audited)

MLPL	FY2023	FY2024
Operating income	1,194.7	1,217.3
PAT	-68.2	-50.8
OPBDIT/OI (%)	-1.2%	2.6%
PAT/OI (%)	-5.7%	-4.2%
Total outside liabilities/Tangible net worth (times)	1.3	1.9
Total debt/OPBDIT (times)	-9.3	7.9
Interest coverage (times)	-0.3	0.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	October 23, 2024	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					Nov 28, 2023	Aug 02, 2023	Sep 22, 2022	Aug 19, 2021
1	**Fund-based bank facilities**	Long/Short term	219.00	**[ICRA]A-(Negative)/ [ICRA]A2+**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**
2	**Unallocated**	Long/Short term	31.00	**[ICRA]A-(Negative)/ [ICRA]A2+**	**[ICRA]A (Stable)/ [ICRA]A1**	-	-	**[ICRA]A+(Stable)/ [ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund based limits	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

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term/Short term – Fund based limits**	NA	NA	NA	219.00	[[ICRA]A- (Negative)/ [ICRA]A2+
NA	**Long term/Short term -Unallocated**	NA	NA	NA	31.00	[[ICRA]A- (Negative)/ [ICRA]A2+

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

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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.

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