Campus Activewear Pvt Ltd

Credit rating report

May 2021

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Instruments and ratings

Rs 140 crore cash credit	CRISIL A/Positive (outlook revised from 'Stable and rating reaffirmed)
Rs 107.6 crore term loan	CRISIL A/Positive (outlook revised from 'Stable and rating reaffirmed)
Rs 33.4 crore proposed long-term bank loan facility	CRISIL A/Positive (outlook revised from 'Stable and rating reaffirmed)
Rs 11 crore bank guarantee	CRISIL A1 (reaffirmed)
Rs 1 crore loan equivalent risk limits	CRISIL A1 (reaffirmed)

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Rating history

Date	Long-term	Fixed deposit	Short-term	Rating watch/Outlook
May 07, 2021	CRISIL A	-	CRISIL A1	Positive
September 28, 2020	CRISIL A	-	CRISIL A1	Stable
July 02, 2020	CRISIL A	-	CRISIL A1	Stable
February 17, 2020	CRISIL A	-	CRISIL A1	Stable
November 25, 2019	CRISIL A	-	CRISIL A1	Stable

Analytical approach and adjustments

Portfolio performance/networth/ gearing/parent or group support	Analytical treatment
Consolidation of subsidiaries	For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of CAPL and its wholly owned subsidiary Campus AI Pvt Ltd (CAIPL). This is because both the entities, together referred to as the Campus group, are in the same business and have strong business linkages.
Financial adjustment	--

Rationale

CRISIL Ratings has revised its rating outlook on the long-term bank facilities of Campus Activewear Pvt Ltd (CAPL; part of the Campus group) to 'Positive' from 'Stable', while reaffirming the rating at 'CRISIL A'; the short-term rating has been reaffirmed at 'CRISIL A1'.

The outlook revision reflects CRISIL Ratings' expectation of improvement in Campus group's business risk profile over the medium term on the back of better-than-anticipated performance in the second half of fiscal 2021.. With revenue estimated at upwards of Rs.1150 for fiscal 2022, and earnings before interest, tax, depreciation and amortisation margin of above 19%, cash accrual is likely to improve significantly. Also, group's focus on exclusive brand outlets, diversification through online channels and franchisee model should continue to support the business growth over the medium term, despite the impact of Covid resurgence in Q1 of fiscal 2022. Financial risk profile should remain comfortable over the medium term with no major capex plans and consolidation of current capacity enhancements. With limited term debt on the books, liquidity is expected to remain strong.

The ratings continue to reflect the healthy position of the Campus group in the footwear industry, strong brand, geographically diversified presence and wide product profile, along with a comfortable financial risk profile. These strengths are partially offset by stretched working capital cycle and exposure to intense competition.

Rating drivers

Supporting factors	Constraining factors
• Established market position with strong brand visibility • Comfortable financial risk profile • Geographically diversified presence and wide product profile	• Exposure to intense competition • Working capital-intensive operations

Outlook: Positive

The Campus group will continue to benefit from its healthy market position, aided by strong brand visibility and diverse product range.

Upside scenario

- Operating income increasing to Rs 1,150 crore in fiscal 2022
- Increase in operating margin by 200 basis points leading to higher cash accrual and reduced debt

Downside scenario

- Decline in operating income by more than 10%
- Large, debt-funded capital expenditure weakening the financial risk profile

About the group

In 1983, Mr H K Agarwal founded the Action brand, which became a household name in the casual and sports footwear segments in India. Mr Agarwal and his brothers subsequently entered other sectors, such as healthcare, power and coal mining. In 1997, the Action group launched its premium Campus brand.

CAPL, incorporated in 2008, and CAIPL, established in August 2015 as a partnership firm and reconstituted in 2020 as a private limited company, are part of the Hari Krishan Aggarwal group, which has been in the footwear business for over three decades. CAPL did not have any significant operations before March 2017.

CAIPL planned to get merge with its parent CAPL, approval from National Company Law Tribunal (NCLT) is pending. The merger process expected to get complete by September 2021.

Key credit factors

Industry risk profile

It is estimated that India produces ~2.3 billion footwear per annum. The industry can be largely divided into leather, polymer, rubber and textile segments. Typically leather based shoes are priced higher at an average of ~Rs 750-800 per pair vis-Ã -vis other segments which are priced at an average of Rs 150-180 per pair. Leather segment accounts for 40-45% of sector's revenues as of FY20. The footwear industry is a highly fragmented industry with over 10,000 units present, mainly in the small and medium industry category with revenues less than Rs 250 crore.

Most of companies in the industry are unorganised and operate in the high volume low value plastics and rubber based segments. Bata is the leading player in India with ~5% market share followed by companies like Relaxo, Mirza international and Liberty footwear. India is a net exporter in footwear segment with ~Rs 148 billion of exports in FY20. Of this, US is a key export destination accounting for ~19% of exports. UK, Germany, France, Italy and Poland are other major export destinations accounting for ~48% of exports. India imported Rs 49 billion of footwear in FY20 of which ~33% is imported from China.

The domestic footwear has seen a strong growth over the past five years on account of increase in per capita consumption. The domestic market is estimated to have grown at a CAGR of 9% over the past three years. From FY20 to FY22, the domestic footwear market is expected to grow at a moderate pace. The slowdown in growth is expected owing to the covidinduced lockdown and restrictions that caused retail disruptions. However, we expect a gradual recovery from Q3FY21 owing to the pent-up demand. Export demand, after falling sharply by 65% in Q1FY21, has been showing continuous improvement on a sequential basis with a lower drop of 32% from Apr-Nov 2020 period. UK, Europe and USA, which account for close to 80% of total exports, is witnessing a second wave of covid-infection. Given this, export demand would remain a key monitorable. We expect the non-leather segments to increase revenue market share over next three years on account of slower growth in leather segment

Business risk profile

Market position

Established market position with strong brand visibility: The four-decade-long experience of the promoters, their strong understanding of market trends and healthy client relationships will continue to support the business risk profile. Moreover, robust brand visibility and diversified product range have helped maintain scale of operations.

Exposure to intense competition: The group has positioned itself in the affordable to mid-luxury footwear segment, where it has to compete with well-established brands, such as Bata, Liberty, Lancer and Relaxo, and several unorganised players. Furthermore, the business risk profile is constrained by price sensitivity of the target segment, which limits the ability to pass on any sharp increase in raw material prices to customers. Exposure to risks related to competitive designs, constant change in customer preferences and growing presence of international brands persists. This forces the group to continuously develop new designs to stay ahead of competition.

Operating efficiency

Working capital-intensive operations: Gross current assets stood at 223 days as on March 31, 2020, and are expected to improve and remain below 200 days over the medium term, driven by receivables of 80-120 days and inventory of 90-100 days. Polyvinyl chloride, polyurethane and ethylene-vinyl acetate are the key raw materials.

Stable and healthy profitability: Operating margin was at 16-19.5% over the three fiscals through 2020, which demonstrates timely passing on of raw material prices to customers. Margins are expected at 17-18% over the medium term contributed by higher profitability from women's footwear supporting the margin and efforts made by management like backward integration to enhance the operating profitability

Financial risk profile

Equity infusion by private equity firms in fiscal 2018 strengthened the financial risk profile significantly.

Gearing: Despite substantial capex incurred in fiscals 2019 and 2020 resulting in increase in capacity and revenue, gearing did not increase due to healthy accretion to reserve. Gearing is at 0.5 time as on March 31, 2020, and though further capex in fiscal 2021, gearing is estimated at around 0.27 time

Networth: Backed by steady accretion to reserve, networth is healthy estimated at Rs 495 crore as on March 31, 2021, and is expected at Rs 600-700 crore over the medium term.

Healthy debt protection metrics: Debt protection metrics are comfortable, with interest coverage and net cash accrual to adjusted debt ratios estimated at 7.07 times and 0.6 time, respectively, in fiscal 20211. The ratios are expected to remain healthy over the medium term.

Liquidity: Strong

Moderate bank limit utilisation
Bank limit utilisation is moderate around 39 percent for the past six months ended March 31, 2021. CRISIL believes that bank limit utilization is expected to remain moderate on account of moderate working capital requirement.

Cash accrual sufficient to meet debt obligation: Cash accrual are expected to be over Rs 84-133 crore which are sufficient against term debt obligation of Rs 17-23 crore over the medium term. In addition, it will be act as cushion to the liquidity of the group.

Moderate current ratio: The ratio is estimated at 1.48 times as on March 31, 2021.

Financial policy:

The group has demonstrated low preference for debt, as reflected in the estimated total outside liabilities to adjusted networth ratio of 0.75 time as on March 31, 2021; the ratio is expected to remain below 1 time over the medium term.

Derivatives policy:

Key raw materials are imported. While the foreign exchange exposure is selectively hedged through forward contracts, susceptibility to sharp volatility in the rates persist.

Financial summary

(Standalone; CRISIL-adjusted numbers)

As on for the year ended March 31	Unit	2020	2019	2018
		Actuals	Provisionals	Actuals
Net Sales	Rs Crore	632	477	404
Operating Income	Rs Crore	634	477	409
OPBDIT	Rs Crore	74	58	47
PAT	Rs Crore	60	65	8
Net Cash Accruals	Rs Crore	80	73	42
Equity Share Capital	Rs Crore	152	0	0
Adjusted Networth	Rs Crore	283	147	118
Adjusted Debt	Rs Crore	213	121	127
OPBDIT Margins	%	11.7	12.2	11.5
Net Profit Margins	%	9.5	13.7	1.8
ROCE	%	25.5	29.8	6.6
PBDIT / Int. & Finance Charges	Times	8.51	6.72	2.86
Net Cash Accruals / Adjusted Debt	Times	0.38	0.60	0.33
Adjusted Debt / Adjusted Networth	Times	0.75	0.83	1.07
Adjusted Debt / PBDIT	Times	1.97	1.42	2.00
Current Ratio	Times	1.44	1.12	0.99
Cashflow from operations	Rs Crore	-25	38	-41
TOL/ ANW	Times	1.10	1.59	2.03
Operating Income/Gross Block	Times	5.14	5.71	4.56
Gross Current Assets days	Days	223	178	196
Debtor Days	Days	78	84	115
Inventory Days	Days	99	84	76
Creditor Days	Days	87	79	127

Annexure 1 - Details of bank facilities

1.Bank Guarantee

#	Bank	Amount (Rs.Cr.)	Rating
a.	HDFC Bank Limited	11	CRISIL A1
-	Total	11	-

2.Cash Credit

#	Bank	Amount (Rs.Cr.)	Rating
a.	HDFC Bank Limited	110	CRISIL A / Positive
b.	Axis Bank Limited	30	CRISIL A / Positive
-	Total	140	-

3.Term Loan

#	Bank	Amount (Rs.Cr.)	Rating
a.	Axis Bank Limited	47	CRISIL A / Positive
b.	HDFC Bank Limited	60.6	CRISIL A / Positive
-	Total	107.6	-

4.Loan Equivalent Risk Limits

#	Bank	Amount (Rs.Cr.)	Rating
a.	Axis Bank Limited	1	CRISIL A / Positive
-	Total	1	-

5.Proposed Long Term Bank Loan Facility

#	Bank	Amount (Rs.Cr.)	Rating
a.		33.4	CRISIL A / Positive
-	Total	33.4	-

Criteria details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
CRISILs Criteria for Consolidation

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