Campus AI Pvt Ltd

Credit rating report

June 2021

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Instruments and ratings

Rs 40 crore Cash Credit	**CRISIL A/Positive (outlook revised from 'Stable and rating reaffirmed)**
Rs 7.9 crore Term Loan	**CRISIL A/Positive (outlook revised from 'Stable and rating reaffirmed)**
Rs 10.1 crore Proposed Long-Term Bank Loan Facility	**CRISIL A/Positive (outlook revised from 'Stable and rating reaffirmed)**

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Rating history

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

Analytical approach and adjustments

Portfolio performance/networth/ gearing/parent or group support	Analytical treatment
Consolidation of subsidiaries	To arrive at its rating, CRISIL Ratings has applied the parent notch-up framework to factor in the support provided by the parent, CAPL. This is because both CAIPL and the parent are in the footwear business, and the former remains critical to the Campus group.
Financial adjustment	--

Rationale

CRISIL Ratings has revised its rating outlook on the long-term bank facilities of Campus AI Pvt Ltd (CAIPL; part of Campus group, earlier known as Ankit International - Baddi) to 'Positive' from 'Stable', while reaffirming the rating at 'CRISIL A'.

The outlook revision reflects a similar rating action on the parent, Campus Activewear Pvt Ltd (CAPL; rated 'CRISIL A/Positive/CRISIL A1'), on the back of better-than-anticipated performance in the second half of fiscal 2021 and expectation of improvement in the business risk profile over the medium term.

The rating reflects the strong support CAIPL receives from its parent, its established brand and market position in the footwear industry, and comfortable financial risk profile. These strengths are partially offset by large working capital requirement and exposure to intense competition.

Rating drivers

Supporting factors	Constraining factors
• Strong operational and financial support from parent • Comfortable financial risk profile • Established market position with strong brand visibility	• Exposure to intense competition • Working capital-intensive operations

Outlook: Positive

CRISIL Ratings believes CAIPL will continue to benefit from its established market position, aided by strong brand visibility and diverse product range.

Rating sensitivity factors

Upside scenario
- Any upward revision in the ratings of the parent, CAPL, by CRISIL Ratings by 1 notch
- Growth in cash accrual by 30%

Downside scenario
- Any downward revision in the ratings of the parent, CAPL, by CRISIL Ratings by 1 notch
- Fall in operating margin by over 200 basis points

About the company

Set up in August 2015 as a partnership firm, CAIPL is a part of the Hari Krishan Agarwal group that has been in the footwear business for more than three decades. In February 2020, it was reconstituted as a private limited company.

About CAPL

CAPL was set up in 2008, as a 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 prior to March 2017.

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 covid induced 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

Strong operational and financial support from parent:

CAPL holds 99% stake in CAIPL, and is involved in the company’s daily operations. The company manufactures slippers, sandals, and school and sports shoes. CAIPL also sells its products under the Campus brand. The ratings centrally factor in timely support provided by CAPL, though the extent of support, remains a key monitorable.

Established market position with strong brand visibility: Presence of around four decades in the footwear industry has enabled the promoters to develop a strong understanding of market trends and maintain healthy client relationships. Moreover, robust brand visibility and diversified product range have lent stability to the overall scale of operations.

Exposure to intense competition: CAIPL has positioned itself in the affordable to mid-luxury footwear segment, where it competes with established brands such as Bata, Liberty, Lancer and Relaxo, as well as several unorganised players. Furthermore, the price-sensitive nature of the target segment limits the scope for passing on any sharp increase in raw material prices to customers. Footwear manufacturers also face risks pertaining to emergence of new designs, constant change in customer preferences, and growing presence of international brands. This forces the company to continuously develop new designs to stay ahead of competition.

Operating efficiency

Working capital-intensive operations: Gross current assets were high at 138-225 days in past 3 years through Fiscal 2020, led by receivables of 59-179 days and sizeable inventory of over 53-64 days. CAIPL maintains inventory of around 60 days, depending upon the order inflow. Polyvinyl chloride (PVC), polyurethane (PU), and ethylene-vinyl acetate (EVA) are key raw materials.

Stable and healthy profitability: Operating margin was 14-21% over the four fiscals through 2020, which demonstrates timely passing on of raw material prices to customers. Margin is expected at 17-18% over the medium term, contributed by higher profitability from sports shoes supporting the margin and efforts made by the management, such as backward-integration, to enhance the operating profitability. Same was 21.9% for Fiscal 2020.

Financial risk profile

Gearing: Despite substantial capital expenditure incurred in fiscals 2018 and 2019 resulting in increase in capacity and revenue, gearing 5.85 time as on March 31, 2020) did not weaken due to healthy accretion to reserves.

Networth: Backed by steady accretion to reserves, networth was healthy at an estimated Rs 5 crore as on March 31, 2020..

Liquidity: Strong

Bank limit utilisation averaged nil over the 12 months ended March 31, 2021, and should remain stable on account of moderate working capital requirement.

Cash accrual against debt obligation: Cash accrual, expected at Rs 18-33 crore per fiscal, should sufficiently cover yearly debt obligation of Rs 1.6 crore over the medium term. The remaining accrual will cushion liquidity.

Moderate current ratio estimated at 2.19 times as on March 31, 2020.

Financial policy:

The firm has demonstrated moderately aggressive, as reflected in its estimated total outside liabilities to adjusted networth ratio of 16.25 time as on March 31, 2020; the ratio is expected to remain below 1 time over the medium term on consolidated basis.

Derivatives policy:

Key raw materials are imported. While 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	Actuals	Actuals
Net Sales	Rs Crore	30	196	158
Operating Income	Rs Crore	30	196	160
OPBDIT	Rs Crore	7	41	31
PAT	Rs Crore	5	25	17
Net Cash Accruals	Rs Crore	5	27	19
Equity Share Capital	Rs Crore	0	6	6
Adjusted Networth	Rs Crore	5	58	34
Adjusted Debt	Rs Crore	30	48	47
OPBDIT Margins	%	21.9	20.8	19.2
Net Profit Margins	%	16.5	12.7	10.4
ROCE	%	52.7	41.4	50.8
PBDIT / Int. & Finance Charges	Times	21.29	9.53	6.60
Net Cash Accruals / Adjusted Debt	Times	1.06	0.56	0.41
Adjusted Debt / Adjusted Networth	Times	5.85	0.82	1.39
Adjusted Debt / PBDIT	Times	0.77	1.18	1.55
Current Ratio	Times	0.80	1.67	1.29
Cashflow from operations	Rs Crore	76	3	-19
TOL/ ANW	Times	16.25	1.21	2.51
Operating Income/Gross Block	Times	7.08	7.69	10.14
Gross Current Assets days	Days	138	195	225
Debtor Days	Days	59	97	179
Inventory Days	Days	64	54	53
Creditor Days	Days	153	63	113

Annexure 1 - Details of Bank Facilities

1.Cash Credit

#	Bank	Amount (Rs.Cr.)	Rating
a.	HDFC Bank Limited	40	CRISIL A / Positive
-	Total	40	-

2.Long Term Loan

#	Bank	Amount (Rs.Cr.)	Rating
a.	HDFC Bank Limited	7.9	CRISIL A / Positive
-	Total	7.9	-

3.Proposed Long Term Bank Loan Facility

#	Bank	Amount (Rs.Cr.)	Rating
a.		10.1	CRISIL A / Positive
-	Total	10.1	-

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
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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Last updated: May 2018

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