

24<sup>th</sup> March 2023

To,

BSE Limited Corporate Relationship Department 1st Floor, New Trading Ring, Rotunda Building, P. J. Towers, Dalal Street, Mumbai – 400 001 <b>SCRIP CODE: 543523</b>	National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 <b>SYMBOL: CAMPUS</b>
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**Sub: Disclosure pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Credit Ratings Affirmed**

Dear Sir,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that India Ratings and Research (Ind-Ra) has affirmed Campus Activewear Limited's (CAL) Long-Term Issuer Rating at 'IND A+' with a Positive Outlook.

The Rationale received from India Ratings and Research is enclosed herewith.

We request you to take the same on record.

Thanking You,

Yours truly  
**For Campus Activewear Limited**

**Archana Maini**  
**General Counsel & Company Secretary**  
**Membership No. A16092**

**Encl: As above**

# India Ratings Affirms Campus Activewear at 'IND A+'/**Positive**; Limits Enhanced

Mar 24, 2023 | Footwear

India Ratings and Research (Ind-Ra) has affirmed Campus Activewear Limited's (CAL) Long-Term Issuer Rating at 'IND A+' with a Positive Outlook. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR2,300	IND A+/Positive/IND A1+	Affirmed
Non-fund-based limits	-	-	-	INR220 (increased from INR110)	IND A+/Positive/IND A1+	Affirmed
Long-term loans	-	-	FY26	INR453.8 (increased from NR254)	IND A+/Positive	Affirmed

The Positive Outlook reflects a sustained premiumisation of the portfolio and strong volume growth in 9MFY23, resulting in a substantial increase in the revenue, and the likelihood of continued growth in FY24, while maintaining a strong credit profile. Moreover, after the initial public offering and listing in May 2022, the company's corporate governance and financial disclosures have improved.

## Key Rating Drivers

**Continued Growth in Revenue in 9MFY23:** CAL's revenue grew by 35% yoy to INR 11,365 million in 9MFY23, mainly because sale volumes rose to 23.6 million (FY22: 19.3 million; FY21: 13 million) and the average selling price increased 2% from FY22. The revenue increase continues to be driven by: (i) better realisations and improved product mix of its premium products, (ii) a wider distribution network, and (iii) an increase in the contribution of the high-margin online sales channel to 37% of the total revenue in 9MFY23 (FY22: 33%; FY21: 19%).

CAL plans to expand its presence in western and southern India; however, northern India would remain its major market over the medium term. Ind-Ra expects the revenue to increase 20%-25% yoy in FY23, backed by continuous premiumisation and diversification of the product portfolio, increasing online presence and an improving brand image. However, the company's revenue remains vulnerable to the seasonal nature of the business, with a major portion of the sales being generated during August-December in northern India.

**EBITDA Margins Remain Strong in 9MFY23; Likely to be Stable in FY23:** Despite high raw material inflation and seasonality, CAL was able to record margins of 17.3% in 9MFY23 (FY22: 20.2%; FY21:16.3%) as the company

managed to pass on the entire increase in raw material prices and increased revenue share of premium products, which offer higher profitability, better operating leverage, and better pricing of portfolio. CAL's continued focus on shifting to the premium product portfolio, and further increase in the proportion of online sales would help CAL maintain its margins in FY23, despite increased spending towards marketing-related activities and raw material inflation.

**Sustained Premiumisation of Portfolio:** Over FY18-FY22, CAL has been working on increasing its product profile and premiumisation. In 9MFY23, the revenue contribution of the premium category – shoes (above INR1,500) stood at 42% (FY22: 41%; FY21: 30%), while the share of sales in the entry level (below INR1,050) dropped to 27% (36%; 51%). During FY19-FY22, revenue from premium category products increased, while that from entry-level products declined. Consequently, the average selling price for CAL also increased.

**Strong Credit Metrics:** In 9MFY23, CAG's credit metrics remained robust owing to a significant increase in the absolute EBITDA to INR1,970 million (9MFY22: INR1,636 million; FY22: INR2,415 million) while the net debt also increased to INR1,877 million (INR1,743 million; INR1,356 million). The net leverage (net debt/ EBITDA) stood at 0.7x in 9MFY23 (FY22: 0.7x, FY21: 1.2x) and the interest coverage stood at 9.2x (FY22: 12.4x, FY21: 6.8x). While the company's increased capex spends would be partly funded through term debt over FY23-FY24, Ind-Ra believes the credit metrics would remain strong, with the net leverage remaining below 1.0x and the interest coverage exceeding 7x, supported by growth in the absolute EBITDA.

**Strengthening Brand Presence:** CAL continued to strengthen its brand presence during 9MFY23 by increasing exclusive brand outlets and expanding its presence in the online segment. The company has adopted several initiatives across all segments and target customer groups. The brand already benefits from a healthy presence in northern India and is now focusing on expanding in other regions as well. In addition to social media engagement, the company has an expansive TV campaign along with a vast out-of-home coverage.

CAL's advertisement and marketing-related expenditure increased to 6.2% of the revenue during FY22 (FY21: 4.6%) and Ind-Ra expects the same to constitute 6%-7% of the revenue over the medium term. The higher spends are likely to enhance the group's brand building initiatives and help in competing with its established peers.

**Liquidity Indicator – Adequate:** CAL has sanctioned fund-based limits of INR2,300 million. The average utilisation of which was 70% for 12 months ended February 2023. CAL has scheduled repayments of around INR30 million in 4QFY23. The unencumbered cash balances stood at INR40.61 million at 9MFYE23 (FYE22: INR3 million, FYE21: INR12 million).

The group incurred capex of only about INR425 million in 1HFY23 (FY22: INR358 million; FY21: INR556 million), towards building a new corporate office, expanding its assembly lines and the retail presence through exclusive brand outlets. The management has budgeted capex of INR1,500 million over FY23-FY24, primarily towards capacity enhancement. Despite increased capex, Ind-Ra expects CAL to generate positive free cash flows over FY23-FY24, due to improving profitability.

**Intense Competition; Evolving Designs:** The company's growth prospects continue to be impacted by increasing competition from several unorganised players, evolving footwear designs and changing fashion. Moreover, the group faces competition from established brands, and hence, increasing market share remains key to its growth. However, regular interactions with customers and rigorous monitoring of inventories have been helping the company mitigate these risks.

## Rating Sensitivities

**Positive:** A significant improvement in the revenue along with profitability by way of increasing the share of premium products, while maintaining the current credit metrics, on a sustained basis, will be positive for the ratings.

**Negative:** Lower-than-expected revenue diversification and/or deterioration in the EBITDA margins, higher

working capital requirements, or a large debt-funded capex, leading to the net leverage above 1.5x, on a sustained basis could result in the Outlook being revised to Stable.

## Company Profile

CAL commenced commercial operations as Ankit International in August 2015. The company is a part of the Hari Krishan Agarwal group of companies within the larger Action Group, which has been in the footwear business for over three decades. Previously, the group had three entities: Nikhil International, Kabeer Textiles Private Limited and Ankit International. In March 2017, the entire business of Nikhil International and Kabeer Textiles was transferred to CAL, which did not have any significant operations prior to this transfer. On 7 February 2020, Ankit International was converted into a private limited company, named Campus AI. Effective September 2022, CAL has merged with Campus AI.

## FINANCIAL SUMMARY

Particulars	9MFY23	FY22	FY21
Revenue (INR million)	11,365	11,942	7,113
EBITDA (INR million)	1,970	2,415	1,160
EBITDA margin (%)	17.3	20.2	16.3
Gross interest coverage (x)	9.2	12.4	6.8
Net adjusted leverage (x)	0.7	0.7	1.2
Source: CAL, Ind-Ra			

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating		
	Rating Type	Rated Limits (million)	Rating	17 November 2022	21 July 2022	27 March 2022
Issuer rating	Long-term	-	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A
Fund-based limits	Long-term/Short-term	INR2,300	IND A+/Positive / IND A1+	IND A+/Positive/IND A1+	IND A+/Positive/IND A1+	IND A+/Stable
Non-fund-based limits	Long-term/Short-term	INR220	IND A+/Positive / IND A1+	IND A+/Positive/IND A1+	IND A+/Positive/IND A1+	IND A+/Stable
Long-term loans	Long-term	INR453.8	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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## APPLICABLE CRITERIA

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**Corporate Rating Methodology**

**Short-Term Ratings Criteria for Non-Financial Corporates**

**The Rating Process**

**Evaluating Corporate Governance**

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