18th November 2022

To,

BSE Limited Corporate Relationship Department 1st Floor, New Trading Ring, Rotunda Building, P. J. Towers, Dalal Street, Mumbai – 400 001 **SCRIP CODE: 543523**	National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 **SYMBOL: CAMPUS**

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 Long-Term Issuer Rating at 'IND A+'. The Outlook is Positive.

The communication/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
Digitally signed by ARCHANA MAINI
Date: 2022.11.18 19:02:47 +05'30'

Archana Maini
General Counsel & Company Secretary
Membership No. A16092

Encl: As above

India Ratings & Research
A Fitch Group Company

Login

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

Nov 17, 2022 | Cotton & Textiles

India Ratings and Research (Ind-Ra) has affirmed Campus Activewear Limited's Long-Term Issuer Rating at 'IND A+'. The Outlook is Positive. 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 (increased from INR1,400)	IND A+/Positive/IND A1+	Affirmed
Non-fund-based limits	-	-	-	INR110	IND A+/Positive/IND A1+	Affirmed
Long-term loans	-	-	FY26	INR254	IND A+/Positive	Affirmed

Change in Analytical Approach: Ind-Ra has changed its analytical approach to standalone from consolidated owing to the merger of CAL with its wholly owned subsidiary, Campus AI Private Limited, in September 2022.

The Positive Outlook reflects a sustained premiumisation of the portfolio and strong volume growth in 1HFY23, resulting in a substantial increase in the revenue, and the likelihood of continued growth over the second half of the year 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 1HFY23: CAL's revenue grew by 64% yoy to INR6,708.8 million in 1HFY23, mainly because sale volumes rose by a significant 59% yoy and the average selling price increased by 4.6% yoy. In FY22, the revenue had increased by 68% yoy to INR11,942 million, 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 33% of the total revenue in FY22 (FY21: 19%). The revenue expanded at a CAGR of 23.7% over FY18-FY22.

CAG 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, the winter season in northern India.

EBITDA Margins Remain Strong; Likely to be Stable in FY23: Despite high raw material inflation and seasonality, CAL was able to record margins of 15.6% in 1HFY23 (1HFY22: 17.3%) as the company managed to pass on the entire increase in raw material prices. According to the management, in FY22, CAG's margin had increased to a healthy 20.2% (FY21: 16.3%) due to the increased revenue share of premium products, which offer higher profitability, better operating leverage, and better pricing of portfolio, which were partially offset by increased advertisement spends. In September 2022, CAL merged with its wholly owned subsidiary, Campus AI. CAL expects the merger to lead to efficient utilisation of the existing financial, managerial and technical resources available with both the companies, and also expects cost efficiencies and savings to result from this backward integration. This along with the company's continued focus on shifting to the premium product portfolio, and further increase in the proportion of online sales would help CAG 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 1HFY23, the revenue contribution of the premium category − shoes (above INR1,500) stood at 41% (1HFY22: 27%), while the share of sales in the entry level (below INR1,050) dropped to 35.6% (1HFY22: 47.6 %). During FY19-FY22, revenue from premium category products increased, while that from entry level products declined. During FY22, while the revenue contribution from the premium category − shoes (priced above INR1,500) and semi-premium shoes (between INR1,050 and INR1,499) − increased to 41% (FY19: 31%) and 23% (21%), respectively, the share of entry level shoes (below INR1,050) reduced to 36% (48%). Consequently, the average selling price for CAL also increased to about INR620/pair in FY22 (FY19: INR485/pair).

Strong Credit Metrics: In 1HFY23, CAG's credit metrics improved on a yoy basis owing to a significant increase in the absolute EBITDA to INR1051 million (1HFY22: INR707 million). The net leverage (net debt/ EBITDA) for stood at 0.9x in 1HFY23 (FY22: 0.7x, FY21: 1.2x) and the interest coverage stood at 7.94x (FY22: 12.4x, FY21: 6.8x). The metrics weakened compared to FY22 levels because CAL's reported gross debt increased to INR2,039.38 million in 1HFY23 (FY22: INR1,743 million), largely because an elongated working capital cycle led to higher utilisation of the short-term facility. The utilisation of the fund-based facility stood at INR1,900 million in 1HFY23 (FY22: INR952 million; FY21: INR365 million). 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 15x, supported by growth in the absolute EBITDA.

Strengthening Brand Presence: CAL continued to strengthen its brand presence during FY22 by increasing exclusive brand outlets and expanding its presence in the online segment. The company has adopted several initiatives among all segments across 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 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 and non-fund-based limits of INR110 million. The average month-end utilisation of the fund-based limits was about 66% and that of the non-fund-based limits was 92% for the 12 months ended September 2022. The unencumbered cash balances stood at INR14.34 million at 1HFYE23 (FYE22: INR3 million, FYE21: INR12 million).

Despite the rising EBITDA and lower capex, CAL's free cash flows turned negative at INR351 million in FY22 (FY21: INR527 million), due to a large working capital outflow. The working capital outflow reflects the payable days reducing to the historic trend of 60 days in FY22 (FY21: 88 days; FY20: 61 days) as suppliers had offered some support during COVID-19. Its inventory days also increased to 108 days in FY22 (FY21: 104 days; FY20: 85 days), given a large number of footwear designs manufactured and higher value of raw material inventory. Ind-Ra expects the company's net working capital cycle to remain around 90 days over the medium term.

The group incurred capex of only about INR358 million in FY22 (FY21: INR556 million), towards 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. However, regular interactions with customers and rigorous monitoring of inventories have been helping the company mitigate these risks. Moreover, the group faces competition from established brands, and hence, increasing market share remains key to its growth.

Merger with Campus AI: In September 2022, CAL merged with its wholly owned subsidiary, Campus AI, as both the companies are engaged in similar business lines. The merger would result in more efficient utilisation of the company's financial, managerial and technical capabilities. This would also simplify the corporate structure and eliminate redundancies. The impact of this merger is credit neutral as Ind-Ra had been taking a consolidated view of the entity.

Rating Sensitivities

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

Negative: Lower-than-expected revenue diversification and/or a deterioration in the EBITDA margins, higher working capital requirements, or a large debt-funded capex, leading to the net leverage exceeding 1.5x, on a sustained basis, could result in the Outlook being revised to Stable.

Company Profile

CAL commenced the 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. In September 2022, CAL merged with Campus AI.

FINANCIAL SUMMARY

Particulars	1HFY23	FY22	FY21
Revenue (INR million)	6,709	11,942	7,113
EBITDA (INR million)	1051	2,415	1,160
EBITDA margin (%)	15.6	20.2	16.3
Gross interest coverage (x)	7.9	12.4	6.8
Net adjusted leverage (x)	0.9	0.7	1.2

Source: CAL, Ind-Ra			

Solicitation Disclosures

Additional information is available at 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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Ratings/		
	Rating Type	Rated Limits (million)	Rating	21 July 2022	27 May 2021	28 February 2020
Issuer rating	Long-term	-	IND A+/Positive	IND A+/Positive	IND A+/Stable	IND A/Stable
Fund-based limits	Long-term/Short-term	INR2,300	IND A+/Positive / IND A1+	IND A+/Positive/ IND A1+	IND A+/Stable / IND A1+	IND A/Stable/IND A1
Non-fund-based limits	Long-term/Short-term	INR110	IND A+/Positive / IND A1+	IND A+/Positive/ IND A1+	IND A+/Stable / IND A1+	IND A/Stable/IND A1
Long-term loans	Long-term	INR254	IND A+/Positive	IND A+/Positive	IND A+/Stable	IND A/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Working capital demand loan	Low
Non-fund-based limits	Low

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

Contact

Primary Analyst
Raheja Misha
Analyst
India Ratings and Research Pvt Ltd

DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Shruti Saboo
Associate Director
0124 6687265

Chairperson
Abhishek Bhattacharya
Senior Director and Head Large Corporates
+91 22 40001786

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

DISCLAIMER