

ZODIAC

12th October, 2021

National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra East Mumbai - 400051 Scrip Code : ZODIACLOTH	BSE Limited, Corporate Relationship Department, First Floor, New Trading Ring, Rotunda Building, P.J. Tower, Dalal Street, Mumbai - 400001 Scrip Code : 521163
---	---

Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sirs,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that CARE Ratings Ltd. (CARE) has assigned the Long Term rating of CARE BB+; Positive (Double B Plus; Outlook: Positive) for Rs. 54 Crore Line of Credit of the Company. The copy of the CARE letter dated 08th October, 2021 (received by us on 11th October, 2021) is attached for your reference.

The reasons provided by CARE for assigning the rating is reproduced below:

"The ratings assigned to the bank facilities of Zodiac Clothing Limited (ZCCL) continue to derive strength from the long track record and established brand presence of the company in the men's wear segment supported by wide geographical presence. The ratings take note of comfortable capital structure and adequate liquidity profile of the company. Additionally, the ratings also factor in promoter's experience in the apparel segment and the financial support extended to the company.

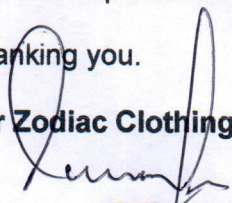
The rating strengths, however, are tempered by the significant decline in scale of operations over the years leading to net losses and elongated working capital cycle. The operations in FY21 and Q1FY22 continue to be significantly impacted by COVID-19 related restrictions. With intense competition from both organised and unorganised players in the industry, the company has limited pricing flexibility.

Going forward, CARE expects, with uptick in exports and various cost rationalisation measures, PBILDT margins to expand along with the scale of operations. The same continues to remain key rating monitorable.

You are requested to kindly take the above information on record.

Thanking you.

For Zodiac Clothing Company Limited


Kumar Iyer
Company Secretary
Membership No.: A9600



ZODIAC CLOTHING COMPANY LTD.,

Nyloc House, 254, D-2, Dr. Annie Besant Road, Worli, Mumbai - 400 030, India.

Tel.: +91 22 6667 7000 Fax: +91 22 6667 7279 CIN: L17100MH1984PLC033143

Trademark Under Licence From Metropolitan Trading Co.

www.zodiaconline.com

No. CARE/HO/RL/2021-22/2601

Mr. B. Mahabala

CFO

Zodiac Clothing Company Limited

Nyloc House 254, D-2, Dr. Annie Besant Road,

Worli, Mumbai

Maharashtra 400030

October 08, 2021

Confidential

Dear Sir,

Credit rating for bank facilities

Please refer to your request for rating the bank facilities of your Company

2. The following ratings have been assigned by our Rating Committee:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	54.00	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Assigned
Total Facilities	54.00 (Rs. Fifty-Four Crore Only)		

3. Refer **Annexure 1** for details of rated facilities.
4. The above rating is normally valid for a period of one year from the date of our initial communication of rating to you (that is October 01, 2021).
5. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 11, 2021, we will proceed on the basis that you have no comments to offer.
6. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
7. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information,

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

CARE Ratings Ltd.

material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.

8. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
9. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
10. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
11. CARE ratings are not recommendations to sanction, renew, disburse or recall any bank facilities.
12. If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE.

Thanking you,
Yours faithfully,



Ankit Shah
Assistant Director
ankit.s@careratings.com



Soumya Dasgupta
Assistant Director
soumya.dasgupta@careratings.com

Encl.: As above

CARE Ratings Ltd.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.



CARE Ratings Ltd.

Annexure 1
Details of Rated Facilities

1. Long Term Facilities

1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	HDFC Bank Ltd.	25.00	4 year tenor including 1 year moratorium. Equal monthly repayments
2.	RBL Bank Limited	20.00	
3.	HDFC Bank Ltd.	4.98	
4.	RBL Bank Limited	3.34	
5.	Proposed	0.68	
	Total	54.00	

Total Long Term Facilities: Rs.54.00 crore

Total Facilities (1.A): Rs.54.00 crore



CARE Ratings Ltd.

Zodiac Clothing Company Limited

October 11, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	54.00	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Assigned
Total Facilities	54.00 (Rs. Fifty-Four Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Zodiac Clothing Limited (ZCCL) continue to derive strength from the long track record and established brand presence of the company in the men's wear segment supported by wide geographical presence. The ratings take note of comfortable capital structure and adequate liquidity profile of the company. Additionally, the ratings also factor in promoter's experience in the apparel segment and the financial support extended to the company. The rating strengths, however, are tempered by the significant decline in scale of operations over the years leading to net losses and elongated working capital cycle. The operations in FY21 and Q1FY22 continue to be significantly impacted by COVID-19 related restrictions. With intense competition from both organised and unorganised players in the industry, the company has limited pricing flexibility.

Going forward, CARE expects, with uptick in exports and various cost rationalisation measures, PBILDT margins to expand along with the scale of operations. The same continues to remain key rating monitorable.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Increase its scale of operations with total operating income beyond Rs. 200 crore through volume driven growth on a sustained basis.
- Improvement in its PBILDT margin to around 20% on sustained basis.
- Improvement in its operating cycle to below 180 days on a sustained basis.

Negative Factors - Factors that could lead to negative rating action/downgrade

- Pressure on revenues and earnings resulting in PBILDT margin less than 10% resulting in net loss.
- Deterioration in its overall gearing to over 0.75x and Total debt to Gross Cash Accruals (TDGCA) of more than 5x on sustained basis.
- Reduction in free cash & cash equivalents below Rs. 10 crore.

Outlook: Positive

The 'Positive' outlook has been assigned on the expectation of increase in its scale of operations along with improvement in its operating profitability (PBILDT margin). The outlook may be revised to 'Stable' in case of lower-than-expected growth in sales and/or profitability margin and reduce operating cycle.

Detailed description of the key rating drivers

Key Rating Weakness

Declining scale of operations further impacted due to COVID19 pandemic in FY21

Scale of ZCCL's operations have been declining at from FY14 onwards. The fall in TOI is on account of declining off-take in key export markets, subdued consumer sentiments, increased domestic competition, aggravated by the outbreak of COVID19. The company has been facing intense competition from low cost countries such as Bangladesh and Vietnam in its export segment.

ZCCL has a policy of non-discounting, the company has end of season sale only once a year whereas most other brands have off-season sales twice a year. This has restricted company's growth in terms of footfalls and resulted in shrinking customer base. Further, the company has been closing non-performing stores due to increased competition in domestic apparel segment from bigger domestic as well as international brands.

ZCCL's operations were further marred with the outbreak of the COVID19 pandemic which led to company reporting net loss of Rs. 29.38 crore on total income of Rs. 126.01 crore in FY21.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Deteriorating working capital cycle

Widespread dealers, EBOs and exports necessitates holding large inventory to cater to assortment of product demand from the distribution network resulting in high inventory days and consequently elongated working capital cycle. ZCCL's working capital cycle has elongated from 110 days in FY18 to 274 days in FY21. The same is on account of increase in inventory period from 116 days in FY18 to 275 days in FY21.

As indicated by the management, the focus has been on liquidating the inventory which has built up over that last 2 years. ZCCL as on June 30, 2021 has Rs. 25.08 crore receivable from the government towards GST refund, income tax refund and export incentive receivables. The management expects liquidation of inventory and clearing of receivables from the government to aid in improving the liquidity profile of the company.

Foreign currency fluctuation risk

As on March 31, 2021; total foreign exchange earnings stood at Rs. 64.47 crore against Rs. 14.54 crore of foreign exchange outgo. Hence, ZCCL is a net exporter. The company follows a hedging policy wherein it hedges close to 100% of booked exposure due within 1 year and 25% due within 1+ years. ZCCL's hedging policy helps it to mitigate risk to that extent. Ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective. ZCCL in FY21 made forex gain of 0.27 crore and Rs. 0.92 crore in FY20.

High competition in exports and fashion retail

ZCCL faces high degree of competition in export markets from low cost producer countries such as Vietnam and Bangladesh among others. These countries have emerged as India's competitors owing to their Least Developed Country status or effective trade agreements.

The company also faces intense competition in domestic markets from large and established brick and mortar retailers along with e-commerce players like Amazon, Flipkart, Myntra.

Uncertainty about third wave of COVID

The company's retail operations continue to remain impacted on account of COVID induced restrictions which are localised to various states. Sales and profitability are expected to remain impacted in FY22, although not as significant as in FY21. Uncertainty regarding the third wave of COVID might lead to curtailed discretionary spending and slow economic recovery.

Key Rating Strengths***Moderation in sales and profitability of the company*****Long track record of operations, significant experience of promoter and fund support**

Founded by Late Mr. M. Y. Noorani, the promoters of the company have experience of more than five decades in textiles and apparels business. The business is currently led by an able management team headed by Mr. A. Y. Noorani and Mr. S. Y. Noorani, sons of the late founder. The company over the years has expanded its reach in both domestic as well as international markets to become one of the leading players in branded men's wear.

The promoters have also demonstrated support towards growth of the company and have regularly infused funds to support loss making operations. The company raised Rs. 50 crore in FY19 and FY20 through preferential allotment of equity shares to the promoters. Further, the promoters also infused Rs. 16.72 crore in FY20 through unsecured loans. During Q4FY21, the unsecured loans were converted to equity and additional Rs. 8.13 crore were infused in the company through equity.

Established brand presence and diversified product portfolio

ZCCL over the years has broadened its product portfolio, which now spans across formal wear, club wear and casual wear through its brands Zodiac, ZOD! and Z3. The company through its brands operates primarily in the premium segment.

The company manufactures and exports products for marquee brands like Zara, Guess, Liverpool and others. 90% of the company's exports is to USA and European countries and the balance is to Middle East.

Diversified geographical presence

ZCCL has diversified geographical presence across India and across the globe. The company has good relationship with its clients in the exports business which are spread across USA, Europe and Middle East. Exports, which usually form over 50% of ZCCL's revenues, increased to 63.04% in FY21 on account of nationwide lockdown and restrictions in operating shops and stores in malls in domestic markets. The company is looking to establish a manufacturing facility in Bangladesh and a company in USA to further improve its reach

On the domestic front, ZCCL generates revenues through its channel partners like EBOs (60%), dealers (22%), web store (13%) and institutional clients (5%) like banks, airlines, etc. The company currently has presence in over 40 cities and operates 60,000sqft of retail space through 116 stores.

Comfortable capital structure; limited reliance on external debt despite losses

ZCCL's capital structure is characterised by comfortable overall gearing ratio of 0.35x as on March 31, 2021 as against 0.55x as on March 31, 2020. Despite reporting losses at net levels since FY16, ZCCL has restricted its reliance on external debt. The company's operations have been supported through infusion of equity aggregating to Rs. 50 crore over FY19 and FY20. The promoters further infused Rs. 16.72 crore towards the end of FY20 through unsecured loans. During Q4FY21, the converted the unsecured loans were converted to equity and additional Rs. 8.13 crore was infused by the promoters.

Liquidity: Adequate

ZCCL has adequate liquidity in the form of investment in mutual funds to the tune of Rs. 10.98 crore as on August 31, 2021 and through holding of 2.21 lakh equity shares of Shoppers Stop Limited (SSL) valued at Rs. 5.41 crore (as on September 24, 2021). Although average working capital utilisation for last 12 months ended Aug-21 remains on the higher side at 73.01% (sanctioned limit: Rs. 45 crore), the company has some headroom available along with estimated GCA of Rs. 34.03 crore in FY22. ZCCL has adequate cushion against scheduled debt repayments aggregating to Rs. 2.77 crore in FY22.

Apart from the above liquid investments and shares of SSL, ZCCL also has investments in venture capital funds such as Faering Capital, Paragon Partners and Tata Capital amounting to Rs. 23.23 crore as on August 31, 2021. As on August 30, 2021, ZCCL has unencumbered cash and bank balance of Rs. 0.50 crore and unencumbered investments (liquid and venture capital) of Rs. 33.71 crore.

Analytical Approach: Consolidated. The list of subsidiaries considered for consolidation is listed as Annexure 5

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non-financial Sector](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

About the Company

Mr. M. Y. Noorani, the promoter of ZCCL, initially started the venture the House of Zodiac as a partnership firm in 1954, manufacturing neckties for men. The entity started exporting its products from 1960s and entered branded shirt business catering to the premium segment in 1970s. ZCCL was incorporated in 1984 and is currently operating in men's formal wear through its flagship brand, "Zodiac", in party/club wear through its sub-brand, "ZOD!", and in relaxed casual wear through its sub-brand, "Z3". These brands are licensed by ZCCL from its group company, Metropolitan Trading Company (MTC), a partnership firm that is 100% owned by the promoters under a perpetual licensing arrangement. MTC charges a royalty of 1% over the annual turnover from ZCCL. The readymade garments export business accounts for over 60% of its turnover (FY21). The domestic branded business is mainly routed through exclusive brand outlets (EBOs) and multi-brand outlets (MBOs). Its 102 operational EBOs present in over 40 cities (as on March 31, 2021) are mainly concentrated in tier-I cities, with the rest being spread across tier-II and III cities. ZCCL is engaged in cutting, stitching, washing, and pressing of fabric into apparels at its manufacturing facilities are located at Bengaluru, Karnataka and Umbergaon, Gujarat in India.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22
Total operating income	322.43	211.30	24.90
PBILDT	32.28	14.21	-1.19
PAT	18.54	5.93	-7.81
Overall gearing (times)	0.07	0.01	NA
Interest coverage (times)	12.32	9.61	NM

A: Audited; NA: Not Available; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	Mar-2025	45.00	CARE BB+; Positive
Term Loan	-	-		8.32	CARE BB+; Positive
Proposed	-	-	-	0.68	CARE BB+; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Long Term	LT	54.00	CARE BB+; Positive				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based-Long Term	Simple

Annexure-5: Name of the companies consolidated with ZCCL

Sr. No.	Subsidiary	Shareholding
		As on March 31, 2021
1	Zodiac Clothing Co. S.A.	100%
2	Zodiac Clothing Co. (UAE) LLC.	100%
3	Zodiac Clothing Bangladesh limited	100%

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Soumya Dasgupta
Contact no.: +91-90046 91428
Email ID: soumya.dasgupta@careratings.com

Relationship Contact

Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**