

Company Overview

Incorporated in 1998, Credo Brands Marketing Ltd. (MUFTI) is better known by its apparel brand MUFTI. This alternative clothing brand is becoming increasingly relevant as India has become economically liberated since the 1990s. MUFTI began more than three decades back to detract Indian men from the monotonous formal wear comprising pale blue and white shirts and dark pants. MUFTI, promoted by Kamal Khushlani, came to the rescue by launching an offbeat and offline product for the young and happening Indian market. The idea of MUFTI was to give voice to the expressive self of the person dressing. Today, MUFTI has grown into a pan-Indian brand that promises to be part of every Indian man's wardrobe. MUFTI caters to every mood and is more mood-based than occasion-based. It offers choices across authentic, urban, relaxed casual, and athleisure products. Its product categories span shirts, jeans, Polo, T-shirts, sweaters, outerwear, Blazers, Chinos, and trousers. Even as the company got the design and manufacturing act together, the big challenge was in the marketing side of the business. Today, MUFTI reaches out through its nationwide presence through multi-brand outlets (MBOs) and Exclusive Brand Outlets (EBOs). Mufti began its journey with MBOs across India but soon graduated to EBOs by 2006. Today, Mufti products are available across over 1,750 doors (379 EBOs, 1,305 MBOs, and 89 Department Stores). MUFTI sources and procures over 4 million units annually across India and international sourcing routes.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ To carry out the Offer for Sale of up to 19,634,960 equity shares aggregating up to Rs. 550 crores;
- ⇒ To achieve the benefits of listing the equity shares on the stock exchanges.

Investment Rationale

Strong brand equity with presence across a wide category of products de-risks the business model

The company's product mix has evolved significantly over the past several years, from consisting only shirts and trousers in the year 1998 to a wide range of products, including t-shirts, sweatshirts, jeans, cargos, chinos, jackets, blazers and sweaters in relaxed holiday casuals, authentic daily casuals to urban casuals, party wear and also athleisure categories as on date. MUFTI's diverse product range comes under India's mid-premium to premium price range of clothing. The product's main competitors, in similar price brackets, are brands such as Jack & Jones, Levi's, Pepe Jeans and U.S. Polo Assn. Further, the company has longstanding relationship with partners across its manufacturing, supply, and distribution network, with some of these partners associated with the brand since its inception. As of September 30, 2023, MUFTI had a network of 48 fabric and accessories suppliers and 48 manufacturing partners, with the top five suppliers from whom it sources raw materials and manufacturing partners being associated with the company for an average of eight years each. This vast network is instrumental in MUFTI's ability to introduce products promptly. Additionally, the company has a pan-India presence, with its reach extending from Major Metros to Tier-3 cities. MUFTI's online presence complements MUFTI's offline channels through its website and various other e-commerce websites.

Business model is scalable and largely asset-light, aiding performance in the long run

With a focus on creating a holistic casual wear brand, the company outsources its manufacturing operations while all design aspects are managed in-house. This helps them maintain an asset-light model concerning plant, property, and equipment. This structure provides agility with their longstanding sourcing partners, allowing them to increase or decrease their supply based on the demand from their various channels. While they outsource their manufacturing, they continue to maintain oversight over each stage of the process, with centralized ordering of fabric and accessories to meet timelines for each stage of production by their manufacturing partners. Additionally, Credo has an experienced in-house textile print and pattern team comprising of 17 experienced graphic designers, illustrators, textile designers, and technicians. This allows them to deliver different designs to their consumers season on season. Their designers have cumulative experience of more than 202 years, having worked in domestic and international retail markets, providing an understanding of global trends and design practices.

Issue Details

| | |
|----------------------------------|---|
| Offer Period | 19 th Dec 2023 - 21 st Dec 2023 |
| Price Band | Rs. 266 to Rs. 280 |
| Bid Lot | 53 |
| Listing | BSE & NSE |
| Issue Size (no. of shares in mn) | 19.6 |
| Issue Size (Rs. in bn) | 5.5 |
| Face Value (Rs.) | 2 |

Issue Structure

| | |
|-----------|--|
| QIB | 50% |
| NIB | 15% |
| Retail | 35% |
| BRLM | Dam Capital Advisors Ltd, ICICI Securities Ltd, Keynote Financial Services Ltd |
| Registrar | Link Intime India Private Ltd |

| Particulars | Pre Issue % | Post Issue % |
|----------------------------|---------------|---------------|
| Promoter & Promoters Group | 68.82 | 55.40 |
| Public | 31.18 | 44.60 |
| Total | 100.00 | 100.00 |

(Assuming issue subscribed at higher band)

Research Team - 022-61596138



Credo Brands Marketing Ltd.

Valuation

The men's apparel market in India is projected to be Rs. 2.2 lakh crores in FY23 and has grown at a CAGR of 9.6% from FY15-20. It is anticipated to post strong growth rate of 18% CAGR to reach Rs. 4.3 lakh crores by FY27 which sets the stage for a dynamic landscape within which Credo Brands Marketing emerges as a noteworthy player, showcasing a distinctive blend of strengths. The company's qualitative advantages include a strong brand equity spanning a diverse product range, safeguarding against business model risks. Operating on a scalable and asset-light model, MUFTI demonstrates flexibility for expansion with minimal capital investments. The brand's unwavering presence as a trendsetter in men's fashion and strong in-house design competencies establish formidable entry barriers. Financially, MUFTI has reported an impressive CAGR of around 42% between FY21 and 23, with net profits doubling over the previous year and showing multifold increase compared to FY21. While the boost in profitability is positive, projecting the June quarter profit figures for FY24 indicates a significant potential shortfall compared to earlier performance. Anticipating a seasonal upswing in the upcoming quarters due to the winter sale of items like jackets and sweaters, it is premature to make definitive remarks about the overall financial performance for FY24. However, the surge in FY23 has translated into marked improvement in net profit margins (15.5% in FY23) and ROE (30% in FY23). The company operates in a segment where the margins are stable, and that is evident in the robust growth in the ROE and net margins in the last two years, underlining the strength of its brand and effective product positioning. **Turning to valuation, the IPO offers a competitive P/E ratio of 23.2x times based on FY23 EPS, reflecting reasonable pricing, especially considering the impressive earnings growth rate and an industry average P/E of 95.2x. We, therefore, recommend investors to "SUBSCRIBE" for listing gains to the issue.**

Key Risks

- ⇒ The company operates in a highly competitive market with many international brands. Keeping up with market trends or hunting for their market share would be the biggest challenge for the company.
- ⇒ The brand is specifically focused on men's casual wear. Any abrupt change in men's consumer preference can significantly impact the brand.
- ⇒ Just like any other organised retail business, the company is at risk of having unsold inventory. Its current inventory turnover days have increased from 154 in FY23 to 198 as of Q1FY24, which is a cause for concern.



Credo Brands Marketing Ltd.

Income Statement (Rs. in millions)

| Particulars | FY21 | FY22 | FY23 | Q1FY24 |
|---|--------------|--------------|--------------|--------------|
| Revenue | | | | |
| Revenue from Operations | 2,448 | 3,412 | 4,982 | 1,185 |
| Total Revenue | 2,448 | 3,412 | 4,982 | 1,185 |
| Expenses | | | | |
| Cost of raw materials and components consumed | 151 | 158 | 278 | 48 |
| Purchases of stock-in-trade | 1,099 | 1,380 | 2,309 | 478 |
| Changes in inventory | 1 | -67 | -468 | -7 |
| Employee benefit expenses | 218 | 292 | 268 | 91 |
| Other Expenses | 495 | 698 | 956 | 272 |
| Total Operating Expenses | 1,963 | 2,461 | 3,343 | 882 |
| EBITDA | 485 | 951 | 1,639 | 303 |
| Depreciation and Amortization expenses | 441 | 459 | 534 | 145 |
| Other income | 163 | 137 | 111 | 9 |
| EBIT | 207 | 629 | 1,216 | 167 |
| Finance costs | 167 | 150 | 177 | 54 |
| PBT | 40 | 478 | 1,038 | 113 |
| Current tax | 50 | 187 | 309 | 27 |
| Tax relating to previous years | -6 | -7 | -1 | -4 |
| Deferred Tax charge/ (credit) | -38 | -60 | -45 | 5 |
| Total tax | 6 | 121 | 263 | 27 |
| PAT | 34 | 357 | 775 | 86 |
| Diluted EPS | 1 | 6 | 12 | 1 |

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

| Particulars | FY21 | FY22 | FY23 | Q1FY24 |
|---|------------|------------|-------------|------------|
| Cash Flow from operating activities | 956 | 784 | 724 | 139 |
| Cash flow from investing activities | -59 | -280 | -191 | -86 |
| Cash flow from financing activities | -661 | -390 | 819 | 116 |
| Net increase/(decrease) in cash and cash equivalents | 236 | 114 | -285 | -63 |
| Cash and cash equivalents at the beginning of the period | 12 | 249 | 363 | 77 |
| Cash and cash equivalents at the end of the period | 249 | 363 | 77 | 15 |

Source: RHP, BP Equities Research



Credo Brands Marketing Ltd.

Balance Sheet (Rs. in millions)

| Particulars | FY21 | FY22 | FY23 | Q1FY24 |
|--|--------------|--------------|--------------|--------------|
| Equity and Liabilities | | | | |
| Equity Share Capital | 32 | 32 | 32 | 129 |
| Other equity-attributable to the owners of the company | 1,891 | 2,325 | 2,781 | 2,770 |
| Total Equity | 1,923 | 2,357 | 2,814 | 2,899 |
| Non-Current Liabilities | | | | |
| Borrowings | 134 | 101 | 68 | 59 |
| Lease liabilities | 1,046 | 1,111 | 1,512 | 1,649 |
| Other financial liabilities | 282 | 316 | 355 | 366 |
| Provisions | 42 | 35 | 38 | 41 |
| Total Non Current Liabilities | 1,504 | 1,564 | 1,973 | 2,115 |
| Current Liabilities | | | | |
| Borrowings | 18 | 34 | 33 | 54 |
| Lease liabilities | 243 | 297 | 306 | 316 |
| Trade Payables (MSME and SME) | 57 | 85 | 118 | 62 |
| Trade Payables (Other than MSME and SME) | 290 | 281 | 306 | 208 |
| Other financial liabilities | 10 | 11 | 23 | 16 |
| Other current liabilities | 72 | 114 | 145 | 225 |
| Provisions | 24 | 18 | 26 | 29 |
| Current tax liabilities (net) | 28 | - | - | - |
| Total Current Liabilities | 743 | 840 | 958 | 910 |
| Total liabilities | 2,247 | 2,403 | 2,931 | 3,025 |
| Total Equity and Liabilities | 4,170 | 4,760 | 5,745 | 5,924 |
| Assets | | | | |
| Non-Current Assets | | | | |
| Property, plant and equipment | 387 | 403 | 615 | 660 |
| Right-of-use assets | 1,265 | 1,371 | 1,731 | 1,860 |
| Capital Work-in-Progress | 4 | 6 | 2 | - |
| Investment property | 17 | 17 | 17 | 17 |
| Intangible assets | 2 | 1 | 4 | 3 |
| Other financial assets | 159 | 151 | 127 | 157 |
| Deferred tax assets(net) | 120 | 158 | 203 | 198 |
| Non-current tax assets | 1 | 19 | 15 | 39 |
| Other non-current Assets | 85 | 117 | 155 | 154 |
| Total Non current assets | 2,041 | 2,242 | 2,868 | 3,087 |
| Current Assets | | | | |
| Inventories | 586 | 657 | 1,134 | 1,123 |
| Trade Receivables | 1,224 | 1,236 | 1,373 | 1,469 |
| Cash and Cash Equivalents | 252 | 507 | 81 | 15 |
| Bank balances | 7 | 8 | 8 | 8 |
| Other financial assets | 11 | 35 | 80 | 52 |
| Other current assets | 48 | 76 | 200 | 171 |
| Total Current Assets | 2,129 | 2,518 | 2,876 | 2,837 |
| Total Assets | 4,170 | 4,760 | 5,745 | 5,924 |

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392