

Recommendation		SUBSCRIBE		BACKGROUND																																																													
Price Band		Rs 266-280		Launched in 1998, Mufti brand is owned by Credo Brands Marketing Ltd. It is a leading wardrobe solution provider for the menswear category led by Kamal Khushlani with a vision to redefine menswear. Credo has evolved its product offerings over the past few years from only shirts, t-shirts and trousers in the initial years to wide range of products including 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. It has adopted asset light business model where it is engaged in the sale of garments and accessories and it has outsourced its manufacturing operations. It mainly focuses on the design of the products while ensuring multi-level checks to achieve desired quality. Additionally, Credo does not have any store which is situated on properties owned by them.																																																													
Bidding Date		19th Dec-21st Dec																																																															
Book Running Lead Manager		DAM Capital Advisors, ICICI Securities, Keynote Financial Services																																																															
Registrar		Link Intime India Private Limited																																																															
Sector		Specialty Retail																																																															
Minimum Retail Application- Detail At Cut off Price				<u>Details of the Issue:</u> <ul style="list-style-type: none">Total issue of Rs 500 Cr, consists of offer for sale by its promoters and other selling shareholdersFurther, company expects enhanced visibility and brand image with a proposed listing of equity shares																																																													
Number of Shares		53																																																															
Minimum Application Money		Rs. 14840																																																															
Discount to retail		0																																																															
Payment Mode		ASBA																																																															
Consolidated Financials (Rs Cr)		FY22	FY23	<u>Investment Rationale:</u> <ul style="list-style-type: none">Strong brand equity with presence across categoriesMulti-channel pan-India distribution networkScalable asset light modelStrong in-house design competencies to deliver innovative and high-quality productsStrong industry outlook backed by increase in urbanization and social connectivity																																																													
Total Income		341	498																																																														
EBITDA		95	164																																																														
Adj PAT		36	78																																																														
Valuations (FY23)		Lower Band	Upper Band																																																														
Market Cap (Rs Cr)		1,710	1,800	<u>Valuation and Recommendation:-</u> <p>Credo Brands Marketing has delivered a lower topline growth of 3.5% between FY20-23 when compared with its peers. However, it has delivered a healthy profits with a growth at ~70% during the same period led by expansion in operating margins from ~10% in FY20 to 33% in FY23. Company has witnessed muted performance in Q1FY24 due to seasonality; however, one can expect healthy growth in FY24. The issue is valued at 11x to FY23 EV/EBITDA which is at discount when compared to its peers. Thus, we recommend SUBSCRIBE to the issue.</p>																																																													
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PE		22	23																																																														
EV/ EBITDA		10	11																																																														
Enterprise Value (Rs Cr)		1,719	1809																																																														
Post Issue Shareholding Pattern				<table><tr><th>Financials</th><th>FY21</th><th>FY22</th><th>FY23</th><th>Q1FY24</th></tr><tr><td>Net Revenues</td><td>245</td><td>341</td><td>498</td><td>118</td></tr><tr><td>Growth (%)</td><td>-45.6%</td><td>39.4%</td><td>46.0%</td><td>NA</td></tr><tr><td>EBITDA</td><td>48</td><td>95</td><td>164</td><td>30</td></tr><tr><td>EBITDA Margin (%)</td><td>19.8%</td><td>27.9%</td><td>32.9%</td><td>25.5%</td></tr><tr><td>PBT</td><td>4</td><td>48</td><td>104</td><td>11</td></tr><tr><td>Adjusted PAT</td><td>3</td><td>36</td><td>78</td><td>9</td></tr><tr><td>EPS</td><td>0.54</td><td>5.56</td><td>12.05</td><td>1.33</td></tr><tr><td>ROCE</td><td>10.0%</td><td>25.2%</td><td>41.7%</td><td>22.2%</td></tr><tr><td>EV/Sales</td><td>7.4</td><td>5.3</td><td>3.6</td><td>3.8*</td></tr><tr><td>EV/EBITDA</td><td>37.3</td><td>19.0</td><td>11.0</td><td>15.0*</td></tr><tr><td>P/E</td><td>523.2</td><td>50.4</td><td>23.2</td><td>52.5*</td></tr></table>		Financials	FY21	FY22	FY23	Q1FY24	Net Revenues	245	341	498	118	Growth (%)	-45.6%	39.4%	46.0%	NA	EBITDA	48	95	164	30	EBITDA Margin (%)	19.8%	27.9%	32.9%	25.5%	PBT	4	48	104	11	Adjusted PAT	3	36	78	9	EPS	0.54	5.56	12.05	1.33	ROCE	10.0%	25.2%	41.7%	22.2%	EV/Sales	7.4	5.3	3.6	3.8*	EV/EBITDA	37.3	19.0	11.0	15.0*	P/E	523.2	50.4	23.2	52.5*
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Promoters		55.4%																																																															
Public/Other		44.6%																																																															
Offer structure for different categories				Source: RHP, NBRR *On Annualised Basis																																																													
QIB (Including Mutual Fund)		50%																																																															
Non-Institutional		15%																																																															
Retail		35%																																																															
Post Issue Equity (Rs. in cr)		12.9																																																															
Issue Size (Rs in cr)		550		Priyanka Ghadigaonkar Research Analyst (+91 22 6273 8177) priyanka.g@nirmalbang.com																																																													
Face Value (Rs)		2																																																															

Company Background

Launched in 1998, Mufti brand is owned by Credo Brands Marketing Ltd. It is a leading wardrobe solution provider for the menswear category led by Kamal Khushlani with a vision to redefine menswear. Credo has evolved its product offerings over the past few years from only shirts, t-shirts and trousers in the initial years to wide range of products including 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. It has adopted asset light business model where it is engaged in the sale of garments and accessories and it has outsourced its manufacturing operations. It mainly focuses on the design of the products while ensuring multi-level checks to achieve desired quality. Additionally, Credo does not have any store which is situated on properties owned by them.

As on Sep'23, the brand has a presence across India with 1,807 touchpoints including 404 EBO's, 71 LFS's, and 1,332 MBO's extending their reach from major metros to Tier 3 cities. The company also has an online channel presence through its website and various e-commerce marketplaces. Credo has a longstanding association with its partners across supply, distribution and manufacturing and the top name includes Arvind Limited, NSL Textiles, RSWM Limited and Birla Century.

Break-down of our product category wise revenue

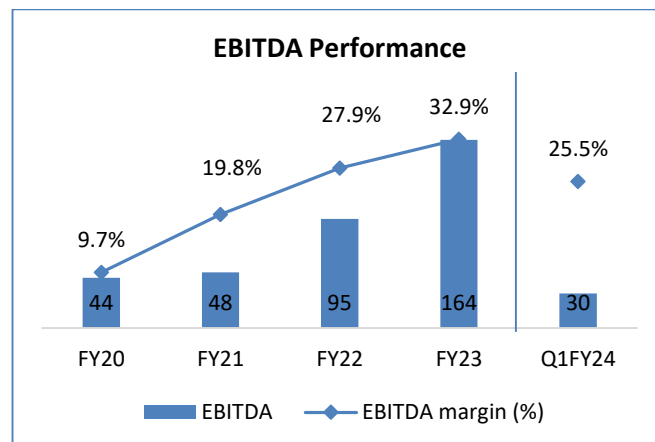
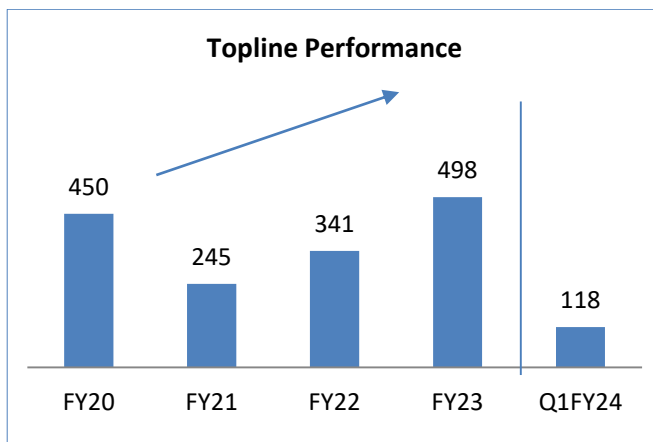
Particulars	FY21	% of Revenue	FY22	% of Revenue	FY23	% of Revenue	Q1FY24	% of Revenue
Shirt	95.01	38.8%	127.113	37.3%	191.22	38.4%	53.03	44.8%
Bottom	97.39	39.8%	141.178	41.4%	212.129	42.6%	46.259	39.0%
T-shirt	27.01	11.0%	38.758	11.4%	52.355	10.5%	13.859	11.7%
Outerwear	15.755	6.4%	19.551	5.7%	22.056	4.4%	0.024	0.0%
Miscellaneous**	9.661	3.9%	14.572	4.3%	20.422	4.1%	5.318	4.5%
Total	244.826	100.0%	341.172	100.0%	498.182	100.0%	118.49	100.0%

Source: RHP, NBRR

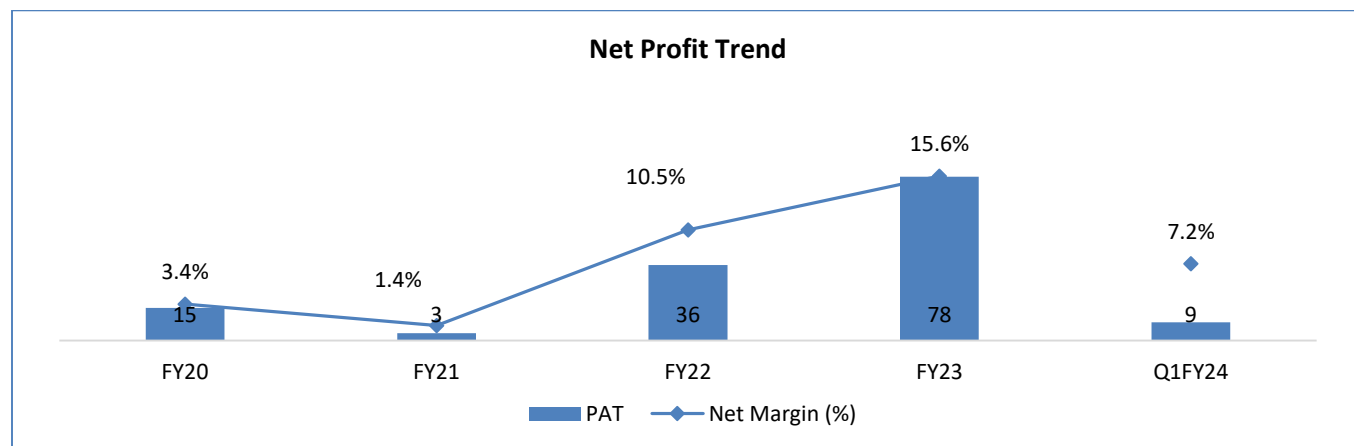
Product wise quantity sold	FY21	FY22	FY23	Q1FY24
Shirt	1,127,546	1,289,589	1,731,116	456,900
Bottom	701,190	868,156	1,198,160	250,178
T-shirt	398,329	466,366	523,345	157,911
Outerwear	71,146	79,667	91,051	512

Source: RHP, NBRR

Financial Performance Metrics:

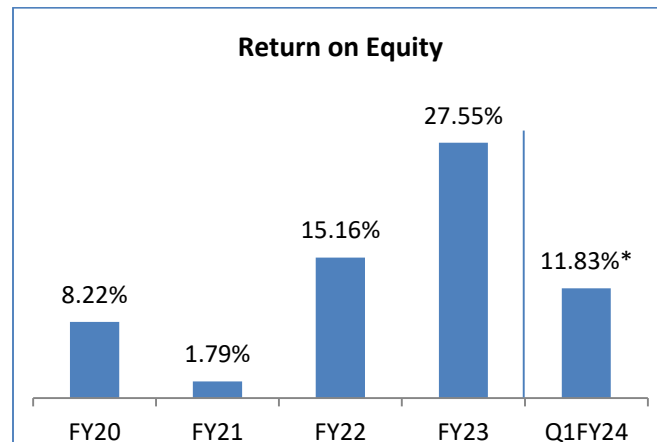
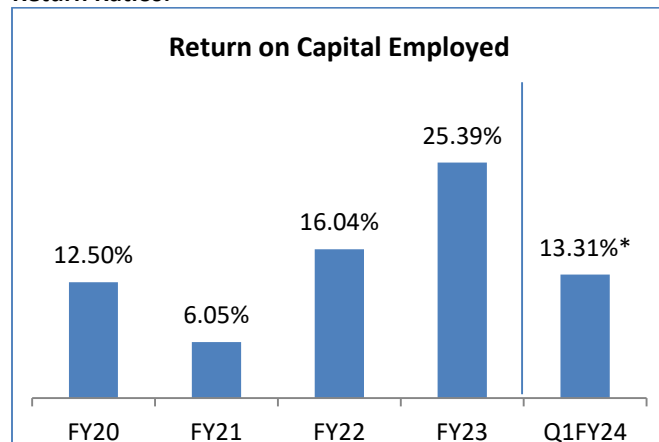


Source: RHP, NBRR



Source: RHP, NBRR

Return Ratios:



Source: RHP, NBRR

*Q1FY24 Annualised Figures

Source: RHP, NBRR

Investment Rationale

Strong brand equity with presence across categories

Credo Brands has only one brand named as 'Mufti' which was launched in 1998. It has a wide range of product offerings with a prominent focus on casual wear that caters to mid premium and premium price range. Company's design team is constantly focusing on expanding product range to meet a varied range of consumer needs. As a step toward brand building, it has launched "Muftisphere" in 2014, a customer loyalty programme, to provide benefits to its loyal customers for shopping the brand thereby increasing their stickiness with the brand. It has a database of over 2 mn customers on Muftisphere.

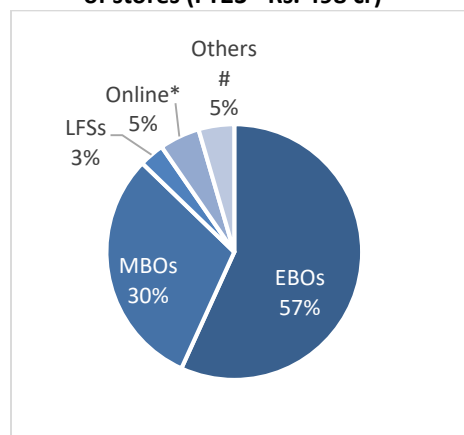
Company's strong brand has helped it to maintain their longstanding relationship with partners across its manufacturing, supply and distribution network with some of these partners are associated since inception of the brand. As on Sep'23, it had a network of 48 fabric and accessories suppliers and 48 manufacturing partners with the top five raw material suppliers and manufacturing partners being associated with an average of eight years each.

The key competitors of Mufti's products include brands such as Jack & Jones, Levi's, Pepe Jeans and U.S. Polo Assn.

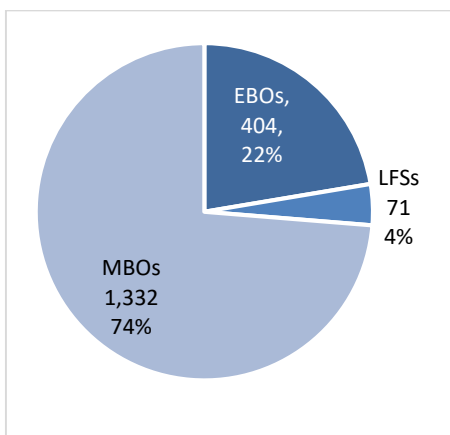
Multi-channel pan-India distribution network

Credo Brands has a pan India presence which extends from Major Metros to tier 3 cities. Company's offline channels are complemented by online presence through its website, 'www.muftijeans.in', and various ecommerce marketplaces.

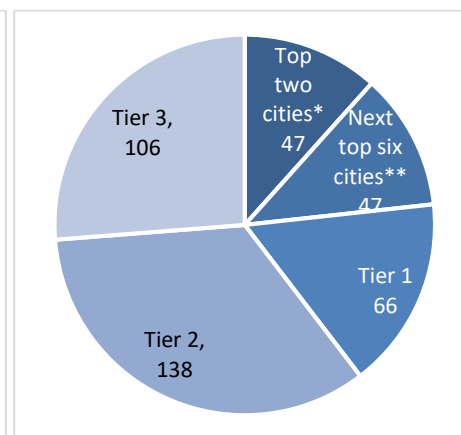
Revenue from different format of stores (FY23 - Rs. 498 cr)



Number of Touchpoints (1,807)



Tier-wise store split of EBOs



Source: RHP, NBRR

* Includes sales through our website and e-commerce marketplaces

Includes sale of trims (such as fabric, buttons, labels, tags, zippers, etc.) and odd lot sale

The zone-wise details of EBOs, MBOs and LFS as on Sep'23:

Channel	Central	East	North	South	West	Total
EBO	44	76	117	61	106	404
MBO	188	431	278	182	253	1,332
LFS	5	12	11	17	26	71
Total	237	519	406	260	385	1,807

Source: RHP, NBRR

Scalable asset light model

Credo mainly focuses on designing products in line with global fashion trends in casual wear and has outsourced its manufacturing operations in order to build an asset light business model with respect to property, plant and equipment. It allows them to build a longstanding relationship with their sourcing partners while allowing them to increase or decrease supply based on the prevailing market demand from various channels. It has continued to maintain quality checks at every stage with centralized ordering of fabric and accessories to meet timelines for each stage of production by manufacturing partners.

Particulars	FY21	FY22	FY23	Q1FY24
Number of manufacturing partners	53	50	54	48

Source: RHP, NBRR

Company's asset light model also covers all selling points with different formats (EBOs, MBOs, LFSs and online); however, no store is being situated on properties owned by Credo Brands.

Number of EBO stores under the category of COCO, COFO and FOFO:

EBO store category	FY21	FY22	FY23	As on Jun'23	As on Sep'23
COCO EBOs	96	94	119	124	130
COFO EBOs	136	142	159	163	168
FOFO EBOs	74	85	95	99	106
EBOs	306	321	373	386	404

Source: RHP, NBRR

Number of EBO stores closed	FY21	FY22	FY23	Q1FY24	Q2FY24
Number of EBOs closed (including closure of relocated stores)	28	30	15	3	6
Number of EBOs relocated	5	8	6	2	4

Source: RHP, NBRR

Strong in-house design competencies to deliver innovative and high-quality products

As company's core operation to maintain its market positioning through its key focus on expressiveness and boldness in its designs. It has built his own team which takes care of its product designing in line with the market trends. It has an in-house textile print and pattern team of 17 members consists of experienced graphic designers, illustrators, textile designers, and technicians. It has produced more than 682 designs during H1FY24.

Over the last few years, it has introduced meaningful capsular collections under the categories of relaxed holiday casuals, authentic daily casuals to urban casuals, party wear and also athleisure. Further, focus on providing a complete look with a strategic manner by way of introducing new product category that compliments products from other categories has helped Credo Brands to expand in to sub categories. Similarly, it has helped it to fulfill consumers' changing demand that builds the brand loyalty and stickiness.

Strong industry outlook backed by increase in urbanization and social connectivity

As per the Technopak Report, the market share of organized men's apparel industry is expected to increase from 45% in FY22 to 60% in FY27E. Men's western wear market contributes ~94% of the total Indian men's apparel market and rest ~6% of the market

is contributed by Indian men's ethnic wear. The casual led men's western wear are likely to outpace the growth of formal led men's western wear growing at 22% v/s 18% between FY22-27E.

Key factors contributing to India's growth towards casual wear in recent years are - i) urbanization and ii) Social media connectivity, iii) growth and influence of mobile internet, iv) increased buying propensity amongst consumers and v) the concept of Friday dressing (casual Fridays) in the corporate world. Due to its comfort and easy to maintain and wear, casual wear has become more preferred lifestyle choice. As a result, the categories such as denim, activewear, casual shirts, athleisure, and loungewear are growing at a CAGR greater than 20%.

Risks and concerns

- Company's business is subject to seasonality. Lower sales may affect company's business, financial condition and result of operations.
- Any inventory damage or change in the fashion trend can lead to obsolete inventory which will lead to loss of inventory which is expected to impact company's financial result negatively.
- Company is part of industry having intense competition with fast changing environment, its ability to meet required expertise and keep the pace with the prevailing industry environment may lead to affect business operations.

Valuation and Recommendation

Credo Brands Marketing has delivered a lower topline growth of 3.5% between FY20-23 when compared with its peers. However, it has delivered a healthy profits with a growth at ~70% during the same period led by expansion in operating margins from ~10% in FY20 to 33% in FY23. Company has witnessed muted performance in Q1FY24 due to seasonality; however, one can expect healthy growth in FY24. **The issue is valued at 11x to FY23 EV/EBITDA which is at discount when compared to its peers. Thus, we recommend SUBSCRIBE to the issue.**

Listed Peers

FY23 Figures	Aditya Birla Fashion and Retail	Arvind Fashions	Kewal Kiran Clothing	Go Fashion (India)	Trent*	Average*	Credo Brands Marketing
Revenue	12,418	4,421	779	665	8,242	4,571	498
CAGR (FY20-23)	12.2%	6.9%	13.7%	19.3%	33.2%	13.0%	3.5%
EBITDA Margin	12.5%	10.6%	19.5%	31.9%	13.5%	18.6%	32.9%
Asset Turns (x)	0.7	1.4	1.0	0.7	1.0	0.9	0.9
Wkg Cap Days	2	31	188	178	56	100	141
ROCE (%)	9.4%	20.5%	28.3%	0.3%	32.3%	14.6%	25.4%
ROE (%)	-2.2%	10.8%	23.2%	0.2%	15.9%	8.0%	27.6%
Debt/Equity	0.8	0.7	0.1	0.7	0.2	0.6	0.6
EV/EBITDA	20.6	13.8	30.1	34.1	100.2	24.7	11.0
P/E	NM	145.8	39.8	84.7	240.2	90.1	23.2

Source: RHP, NBRR

*Excludes Trent from average peer valuation

NM-Not Meaningful

Financials

P&L (Rs. Cr)	FY21	FY22	FY23	Q1FY24	Balance Sheet (Rs. Cr)	FY21	FY22	FY23	Q1FY24
Net Revenue	245	341	498	118	Share Capital	3	3	3	13
% Growth	-46%	39%	46%	NA	Other Equity	189	233	278	277
Purchases of stock in trade	125	147	212	52	Minority Interest				
% of Revenues	51.1%	43.1%	42.5%	43.8%	Networth	192	236	281	290
Employee Cost	22	29	27	9	Total Loans	15	13	10	11
% of Revenues	8.9%	8.6%	5.4%	7.7%	Other non-curr liab.	137	146	191	206
Other expenses	49	70	96	27	Trade payable	35	37	42	27
% of Revenues	20.2%	20.5%	19.2%	23.0%	Other Current Liab	38	44	50	59
EBITDA	48	95	164	30	Total Equity & Liab.	417	476	574	592
EBITDA Margin	19.8%	27.9%	32.9%	25.5%	Property, Plant and Equipment	39	40	62	66
Depreciation	44	46	53	15	CWIP	0	1	0	0
Other Income	16	14	11	1	Other Intangible assets / Right of u	128	139	175	188
Interest	17	15	18	5	Non Current Financial assets	16	15	13	16
Exceptional item	0	0	0	0	Other non Curr. assets	21	29	37	39
PBT	4	48	104	11	Inventories	59	66	113	112
Tax	1	12	26	3	cash and cash equivalents	26	51	9	2
Tax rate	14%	25%	25%	24%	Investments+loans	1	3	8	5
Adj. PAT (norm. Tax)	3	36	78	9	Trade receivables(debtor)	122	124	137	147
% Growth	-78%	939%	117%	#DIV/0!	Other Current assets	5	8	20	17
EPS (Post Issue)	0.54	5.56	12.05	1.33	Total Assets	417	476	574	592

Ratios & Others	FY21	FY22	FY23	Q1FY24	Cash Flow (Rs. Cr)	FY21	FY22	FY23	Q1FY24
Debt / Equity	0.6	0.5	0.6	0.6	Profit Before Tax	4	48	104	11
EBITDA Margin (%)	19.8%	27.9%	32.9%	25.5%	Provisions & Others	46	61	64	19
PAT Margin (%)	1.4%	10.5%	15.6%	7.2%	Op. profit before WC	50	109	168	30
ROE (%)	1.8%	15.2%	27.6%	11.8%	Change in WC	45	-11	-65	-12
ROCE (%)	6.0%	16.0%	25.4%	13.3%	Less: Tax	-0	-20	-31	-5
					CF from operations	96	78	72	14
Turnover Ratios	FY21	FY22	FY23	Q1FY24	Purchase/Sale of fixed assets	-6	-15	-34	-9
Debtors Days	183	132	101	113	Sale/Purchase of Investments	0	0	0	0
Inventory Days	87	70	83	86	Interest, dividend and other inc	-0	-13	15	0
Creditor Days	52	39	31	21	CF from Investing	-6	-28	-19	-9
Asset Turnover (x)	0.6	0.7	0.9	0.8	Repayment towards Lease Liab	-34	-34	-43	-12
					Repayment of Borrowings	-29	-2	-3	-1
					(Repayment)/ proc current debt	1	0	0	2
Valuation Ratios	FY21	FY22	FY23	Q1FY24	interest & div paid	-4	-3	-35	-1
Price/Earnings (x)	523.2	50.4	23.2	52.5	CF from Financing	-66	-39	-82	-12
EV/EBITDA (x)	37.3	19.0	11.0	15.0	Net Change in cash	24	11	(29)	(6)
EV/Sales (x)	7.4	5.3	3.6	3.8	Cash & Bank at beginning	1	25	36	8
Price/BV (x)	9.4	7.6	6.4	6.2	Cash & Bank at end	25	36	8	1

Source: Company Data, NBRR

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