

Retail Research	IPO Note
Sector: Retail	Price Band (Rs): 266 - 280
19th December 2023	Recommendation: Subscribe for Long Term Horizon.

Credo Brands Marketing Limited

Company Overview:

Credo Brand Marketing Ltd offers casual clothing for men under its brand name Mufti. It is engaged in the business of retail sale of garments and accessories. Its product offerings ranges from shirts, t-shirts, jeans, chinos, etc. which caters to all year-round clothing. It offers designs suited for specific occasions ranging from relaxed holiday casuals, authentic daily casuals to urban casuals, party wear and also athleisure. The company's products are available through a pan-India multichannel distribution network comprising of exclusive brand outlets (EBOs), large format stores (LFSs) and multi-brand outlets (MBOs), as well as online 159 channels comprising of its website and other e-commerce marketplaces. The company focuses on the design of products and outsource the manufacturing of products to various manufacturing partners.

Key Highlights:

- Strong brand equity with presence across sectors:** Launched in the year 1998, Mufti is a recognized brand with 25 years of presence in India. It provides wide range of products for multiple occasions in a customer's life, with its product offerings ranging from shirts, t-shirts, jeans, chinos, jackets, etc. which caters to all year-round clothing with a prominent focus on casual wear. The company's diverse product range comes under the mid-premium to premium price range of clothing in India.
- Multi-channel pan-India distribution network:** The company has a pan India presence with its reach extending from major metros to tier-3 cities. As of Sep'23, it has 1,807 touchpoints comprising of 404 EBOs, 71 LFSs and 1,332 MBOs. Out of the total 404 EBOs, ~66.3% are on the high streets, ~32.2% are in malls, and ~1.5% are in airports. The offline channels are also complemented by its online presence through its website www.muftijeans.in, and various ecommerce marketplaces. The company's multi-channel presence is planned strategically in a manner that its products across categories are available at consumers' preferred shopping channels.
- Scalable asset light model:** The company outsource its manufacturing operations while all aspects of design are managed in-house which helps it to maintain an asset-light model with respect to plant, property, and equipment. While it outsources its manufacturing, it continues to maintain an oversight over each stage of the process with centralized ordering of fabric and accessories to meet timelines for each stage of production by its manufacturing partners.
- Strong in-house design competencies:** The company has an experienced in-house textile print and pattern team comprising of experienced graphic designers, illustrators, textile designers, and technicians. This allows it to deliver different designs to consumers season on season. As of Sep'23, it has a design team of 17 members who have created and produced more than 682 designs during 1HFY24. The designers have a cumulative experience of more than 202 years having worked in domestic retail as well as international markets providing an understanding of global trends and design practices.

Valuation: The company is valued at FY23A PE multiple of 22.1x and 23.2x at the lower and upper price band respectively on post-issue capital. The company has a decent market share of 1.3% in mid-price + branded men's casual led western wear market. The company's financial performance has shown robust growth in last two years on structural and operational efficiencies. On a peer comparison basis, the company has attractive return ratios and hence the issue looks attractively valued. We recommend investors to subscribe to the issue for long-term investment horizon.

Issue Details	
Date of Opening	19 th December 23
Date of Closing	21 st December 23
Price Band (Rs)	266 - 280
No. of shares	1,96,34,960 (100% OFS)
Issue Size (Rs cr)	522.3 – 549.8
Face Value (Rs)	2.0
Post Issue Market Cap (Rs cr)	1,710.4 – 1,800.5
BRLMs	DAM Capital Advisors Ltd, ICICI Securities Limited, Keynote Financial Services Ltd
Registrar	Link Intime Pvt. Ltd.
Bid Lot	53 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	9,01,29,980	99.3
Public & Others	6,33,520	0.7
Total	9,07,63,500	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	6,82,49,025	75.2
Public & Others	2,25,14,475	24.8
Total	9,07,63,500	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	1QFY24
Revenue from operations (Rs cr)	244.8	341.2	498.2	118.5
EBITDA (Rs cr)	48.5	95.1	163.9	30.3
Profit (Rs cr)	3.4	35.7	77.5	8.6
EBITDA Margin (%)	19.8	27.9	32.9	25.5
PAT Margin (%)	1.4	10.5	15.6	7.2
EPS (Rs)	0.5	5.6	12.1	1.3*
RoE (%)	1.8	15.2	27.6	3.0*
RoCE (%)	10.0	25.2	41.7	5.5*
Debt / Equity (x)	0.1	0.1	0.0	0.0

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- **Dependency on a single segment of men's casual western wear:** The company's business is currently dependent primarily on sale of garments and accessories catering to the casual western wear market for men. Since it is a segment of the vast apparel market, if the customers are not satisfied with company's products, or there is lack of customer demand for its products, it may adversely affect company's business, financial conditions, and results of operations.
- **Miscalculation in company's customer demand forecast may result in higher inventory levels:** A decline in demand for company's products or a misjudgment on its part regarding the nature of designs in demand could lead to an increased market acceptance of its competitors' products or may result in the substitution of its products in the market. This could lead to the company having lower sales and excess inventory which may necessitate selling of excess inventory at cost price / lower than cost price.
- **Marketing dependent on a single brand name Mufti:** All the company's products are sold under a single brand Mufti. Any inability to effectively market its products, or any deterioration in public perception of the brand could affect consumer footfall and consequently adversely impact its business, financial condition, cash flows and results of operations.
- **Highly competitive market environment:** The company operates in a highly competitive market in each of its product segments in both offline and online channels and an inability to compete effectively may adversely affect its business, results of operations and financial condition. Further, pricing pressure from competitors may affect company's ability to maintain or increase product prices which may impact company's profitability.

Growth Strategy

- Expansion of domestic store network by setting up new EBOs and expanding EBO network in existing as well as additional regions across India.
- Enhancement of brand appeal through focused marketing initiatives.
- Grow sales by deeper penetration through online channels by capitalizing on the increasing e-commerce demand in Indian retail.
- Focused expansion of product portfolio to become a men's lifestyle brand.
- Leverage technology to improve supply-chain management and enhance customer experience.

Revenue from operations

Store formats	FY21		FY22		FY23		1QFY24	
	Amount in Rs cr	% of Revenue from Operations	Amount in Rs cr	% of Revenue from Operations	Amount in Rs cr	% of Revenue from Operations	Amount in Rs cr	% of Revenue from Operations
EBOs	137.1	56.0	176.9	51.8	282.9	56.8	72.3	61.0
MBOs	67.6	27.6	110.0	32.2	151.6	30.4	21.2	17.9
LFSs	6.9	2.8	11.5	3.4	15.8	3.2	2.9	2.5
Online (incl. website & e-commerce)	20.1	8.2	28.0	8.2	25.4	5.1	16.5	13.9
Others (incl. sale of trims)	13.1	5.4	14.8	4.3	22.5	4.5	5.6	4.7
Revenue from Operations	244.8	100.0	341.2	100.0	498.2	100.0	118.5	100.0

Source: RHP, SSL Research

No. of stores as of 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, SSL Research

Weighted Average MRP of Products

Product	FY21	FY22	FY23
Shirt	2,035	2,160	2,481
Bottoms	3,359	3,564	3,954
T-Shirt	1,717	1,867	2,226
Outerwear	4,683	5,431	5,520

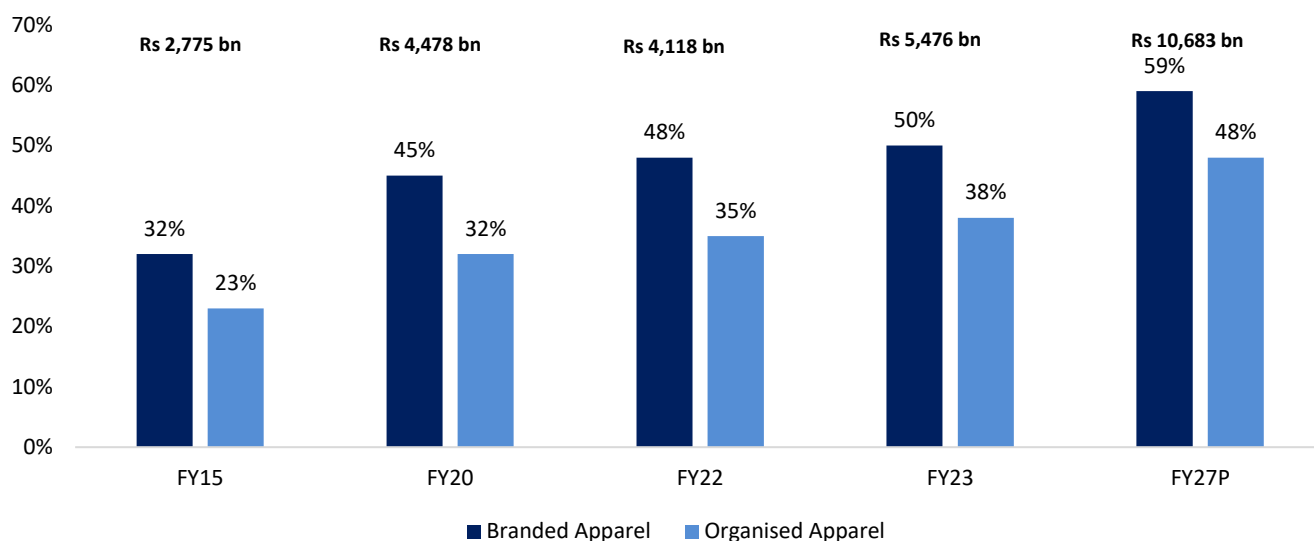
Source: RHP, SSL Research

Industry Overview – Branded Apparel Market

Branded Apparel and Organized Apparel Retail as a share of Apparel Market

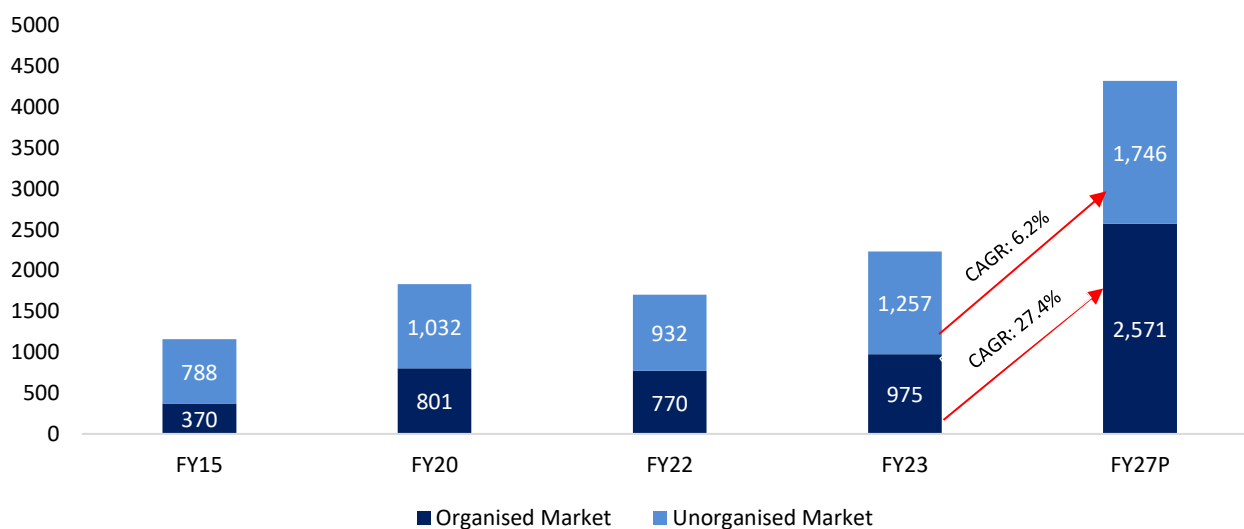
Branded apparel signifies registered trademarks that are regularly patronized by customers and that are sold through both organized retail and trade channels. Organized retail signifies formal retail channels of Exclusive Brand Outlets (EBOs), Multi Brand Outlets (MBOs), Large Format Stores (LFS), E-commerce etc. Apparel retailed through these organized retail points of sales is necessarily branded. Therefore, organized share is less than the share of Branded apparel in total share. The share of organised retail in apparel has witnessed a steady increase over the past years. The share of organised sector in apparel was 23% in FY15 which increased to 32% in FY20 and 38% in FY23. The same is expected to reach 48% by FY27.

Branded Apparel and Organized Apparel Retail as a share of Apparel Market



Organised share of Men’s Apparel market likely to grow at a higher CAGR of 27.4% over FY23-27P vs. unorganized market

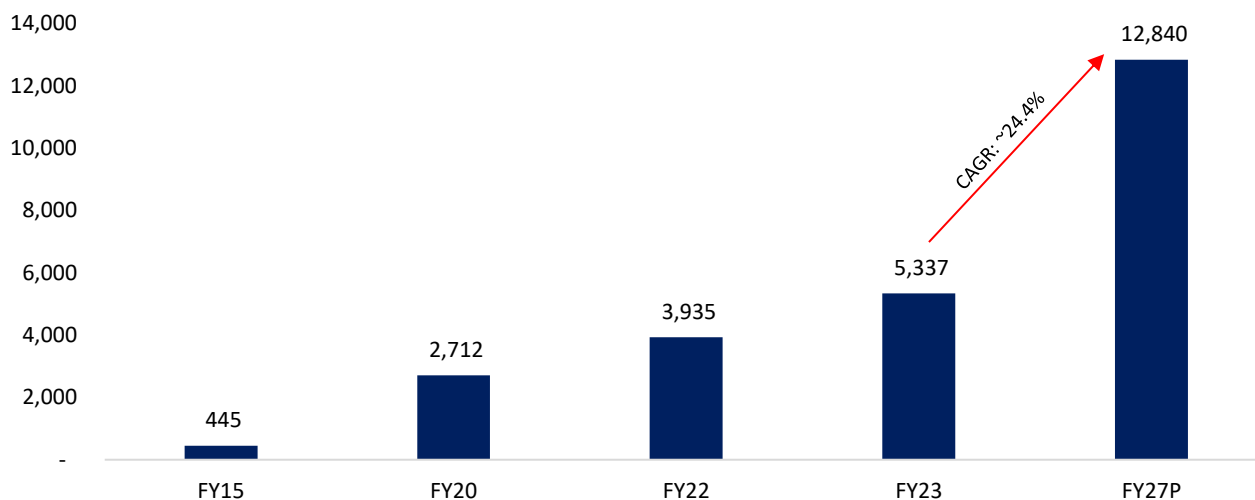
Men’s Apparel Market segmentation by Organised & Unorganised Market (Rs bn)



Source: RHP, SSL Research

E-retail in India likely to grow at 24.4% CAGR over FY23-27P

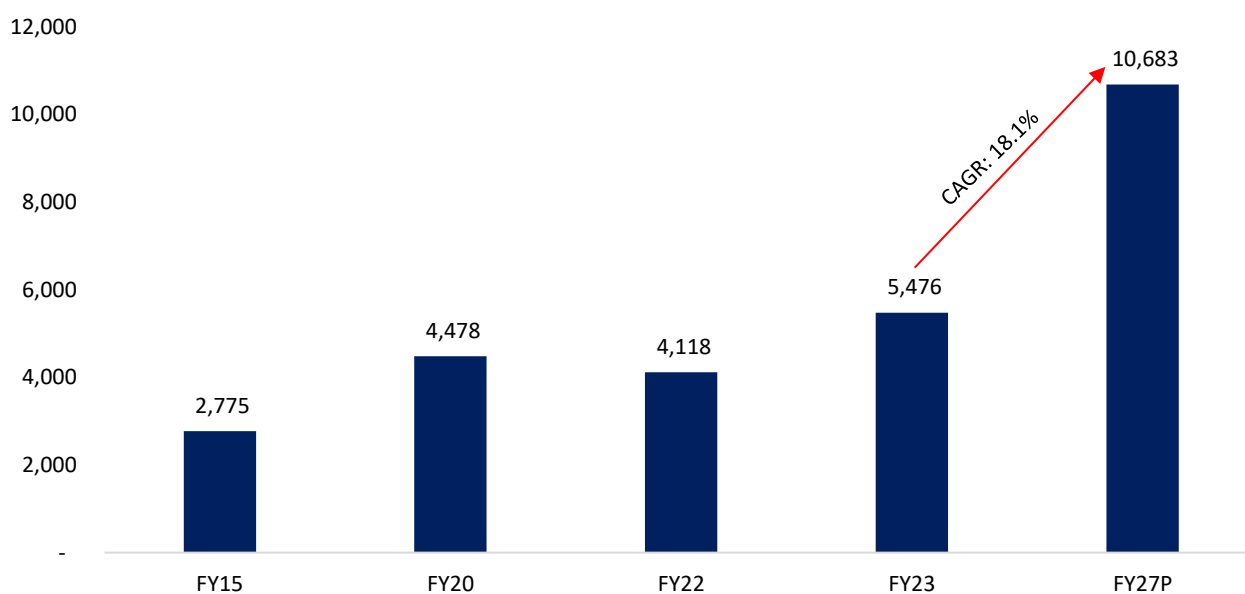
E-tail in India has witnessed a rapid growth trajectory and is expected to reach ~11% (Rs 12,840 bn) of total retail by FY27 from its share of 7% in FY22 (Rs 3,935 bn). The E-retail market in India is expected to grow at a CAGR of 24.4% from Rs 5,337 cr in FY23 to Rs 12,840 cr in FY27P. Between FY15 and FY20, ecommerce sales have grown at CAGR of 44%. Apparel and Apparel Accessories had the 2nd highest share of e-commerce among all categories at 24% for FY23.

Growth of E-retail in India (Rs bn)

Source: RHP, SSL Research

Apparel Market Size in India likely to grow at 18.1% CAGR over FY23-27P

Apparel market size in India was valued at Rs 5,476 bn (USD 68.5 bn) in FY23 and is projected to grow at a CAGR of ~18% between FY23 and FY27 to reach Rs 10,683 bn (USD 133.5 bn) by FY27 on the back of factors like higher brand consciousness, increasing digitization, greater purchasing power and increasing urbanization.

Apparel Market Size in India (Rs bn)

Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	244.8	341.2	498.2
% YoY growth		39.4	46.0
Cost Of Revenues (incl. Stock Adj.)	125.0	147.1	211.9
Gross Profit	119.8	194.1	286.2
Gross margins (%)	48.9	56.9	57.5
Employee Cost	21.8	29.2	26.8
Other Operating Expenses	49.5	69.8	95.6
EBITDA	48.5	95.1	163.9
EBITDA margins (%)	19.8	27.9	32.9
Other Income	16.3	13.7	11.1
Interest Exp.	16.7	15.0	17.7
Depreciation	44.1	45.9	53.4
Exceptional Items	-	-	-
PBT	4.0	47.8	103.8
Tax	0.6	12.1	26.3
PAT	3.4	35.7	77.5
PAT margin (%)	1.4	10.5	15.6
EPS	0.5	5.6	12.1

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	165.4	177.5	235.0
Capital WIP	0.4	0.6	0.2
Intangible Assets under development	-	-	-
Other Non-current Assets	38.3	46.1	51.6
Current Assets			
Current Investment	-	-	-
Inventories	58.6	65.7	113.4
Trade receivables	122.4	123.6	137.3
Cash and Bank Balances	26.0	51.4	8.9
Other Financial Assets	1.1	3.5	8.0
Other Current Assets	4.8	7.6	20.0
Total Current Assets	212.9	251.8	287.6
Current Liabilities & Provisions			
Trade payables	34.7	36.7	42.5
Other current liabilities	35.4	42.1	47.4
Short-term provisions	2.4	1.8	2.6
Total Current Liabilities	72.5	80.6	92.5
Net Current Assets	140.4	171.2	195.2
Total Assets	344.5	395.5	482.0
Liabilities			
Share Capital	3.2	3.2	3.2
Reserves and Surplus	189.1	232.5	278.1
Total Shareholders' Funds	192.3	235.7	281.4
Total Debt	15.2	13.5	10.1
Long Term Provisions	4.2	3.5	3.8
Other Long-Term Liabilities	132.7	142.8	186.8
Net Deferred Tax Liability	-	-	-
Total Liabilities	344.5	395.5	482.0

CASH FLOW (Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	95.6	78.4	72.4
Cash flow from Investing Activities	-5.9	-28.0	-19.1
Cash flow from Financing Activities	-66.1	-39.0	-81.9
Free Cash Flow	89.7	63.2	38.0

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	0.8	7.5	13.5
Return on Capital (%)	10.0	25.2	41.7
Return on Equity (%)	1.8	15.2	27.6
Margin Analysis			
Gross Margin (%)	48.9	56.9	57.5
EBITDA Margin (%)	19.8	27.9	32.9
Net Income Margin (%)	1.4	10.5	15.6
Short-Term Liquidity			
Current Ratio (x)	2.9	3.1	3.1
Quick Ratio (x)	2.1	2.3	1.9
Avg. Days Sales Outstanding	183	132	101
Avg. Days Inventory Outstanding	171	163	195
Avg. Days Payables	101	91	73
Fixed asset turnover (x)	1.5	1.9	2.1
Debt-service coverage (x)	1.5	3.3	5.9
Long-Term Solvency			
Total Debt / Equity (x)	0.1	0.1	0.0
Interest Coverage Ratio (x)	5.2	1.3	1.2
Valuation Ratios			
EV/EBITDA (x)	36.9	18.5	11.0
PER (x)	518.5	50.0	23.2
P/B (x)	9.4	7.6	6.4

Source: RHP, SSL Research

Peer Comparison – FY23

	Credo Brands Marketing Ltd	Aditya Birla Fashion & Retail Ltd	Go Fashion (India) Ltd	Arvind Fashions Ltd	Kewal Kiran Clothing Ltd
CMP (Rs)*	280.0	233.0	1,297.5	404.7	797.6
Sales (Rs cr)	498.2	12,417.9	665.3	4,421.1	779.5
EBITDA (Rs cr)	163.9	1,493.6	212.3	451.7	151.8
Net Profit (Rs cr)	77.5	-59.5	82.8	87.0	119.0
Market Cap. (Rs cr)	1,800.5	22,115.1	7,007.4	5,379.8	4,914.9
Enterprise Value (Rs cr)	1,801.6	23,720.1	6,920.4	5,777.8	4,795.7
EBITDA Margin (%)	32.9	12.0	31.9	10.2	19.5
Net Margin (%)	15.6	-0.5	12.4	2.0	15.3
PE (x)	23.2	-	84.6	61.9	41.3
EV/EBITDA (x)	11.0	15.9	32.6	12.8	31.6
EV/Sales (x)	3.6	1.9	10.4	1.3	6.2
RoE (%)	27.6	-2.1	15.9	9.6	21.7
RoCE (%)	41.7	7.5	26.4	17.6	27.2

*upper price band for Credo Brands Marketing and cmp of 18th Dec for other stocks

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