



IPO NOTE

**Credo Brands Marketing
Ltd.**

18th December 2023

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 19th Dec 2023 - 21st 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)

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.

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,StoxBox

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,StoxBox

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,StoxBox

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

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