

Press Release

Brand Studio Lifestyle Private Limited

April 11, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs.22.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from ACUITE BB- /Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.22.50 crore bank facilities of Brand Studio Lifestyle Private Limited. The outlook is '**Stable**'.

The upgrade is in view of significant growth in revenues and the capital structure of the company which was mainly on account of its association with FK Myntra Holdings Private Limited (FMHPL). Acuité believes going ahead the company will sustain the growth in revenues over the medium term.

Incorporated in 2014, Brand Studio Lifestyle Private Limited (BSLPL) a Bangalore, Karnataka based company engaged in the sale of readymade garments through online portals such as Myntra, Jabong, Flipkart as well as offline markets through Reliance, Pantaloons and Lifestyle among others. The company was promoted by Mr. Anant Tanted and Mr. Rohit Jaiswal. Currently company owns eight different brands viz. Locomotive, Highlander, Mark Taylor, Black Coffee, Folklore, Visudh, Tokyo Talkies.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the BSLPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

Established in 2014, Brand Studio Lifestyle Private Limited (BSLPL) promoters and top management have immense experience in the readymade garment business. Mr. Shyam Prasad, Director/CEO has experience of more than two decades across retail operations and management and has been previously associated with reputed companies like Reliance Retail and Inmark Retail. Further, BSLPL has seasoned team across the design & design management, marketing, planning & strategy in handling the volumes. About 70 per cent of BSLPL's revenues are derived from ecommerce platforms such as Flipkart, Myntra, Jabong and Ajio among others; remaining 30 per cent from retail chains like Reliance Trends and Pantaloons. BSLPL has in-house design team, which shares the new styles (of ladies, gent's garments) with the garment supplier for manufacture and supply. Further, the healthy client portfolio and low counterparty risk supported BSLPL in getting the required quantum of material on back-to-back basis from its suppliers with whom the management has cordial relations.

Acuité believes that BSLPL will continue to benefit from its experienced management and established relation with its customers and suppliers over the medium term.

• Benefits derived from the association with FMHPL

BSLPL has signed the agreement with FMHPL under accelerator program for the purpose of brand building and increasing the sales through their online portals i.e. Myntra and Jabong. Through this FMHPL will invest in BSLPL by subscribing to its equity shares. As on 31 March 2019, FMHPL has infused Rs.8.70 crore in the form of equity and Rs.58.78 crore in the form of Compulsorily Convertible Preference Shares or (CCPS) which will be converted to equity in FY2020 based in the prevailing valuation. Through this agreement, BSLPL will be able to use the marketing channels of online portals i.e. Myntra and Jabong which are expected to boost its sales against which BSLPL will have to pay the marketing margins for using their channels. The association with FMHPL has resulted in improvement in the revenues of BSLPL which stood at ~Rs.240.00 crore for 11M FY2019 (Provisional) as against Rs.114.11 crore for FY2018.

Acuite believes that BSLPL will benefit from the association with FMKPL and its improving its business risk profile over the medium term.

Weaknesses

• Average financial risk profile

BSLPL has average financial risk profile marked by low net worth high gearing and Total Outside Liabilities to Tangible Net Worth (TOL/TNW). The net worth of BSLPL stood at Rs.6.53 crore as on 31 March 2018 as against Rs.2.81 crore as on 31 March 2017. The gearing (debt-equity) stood at 2.83 times as on 31 March 2018 as against 3.14 times as on 31 March 2017. The total debt of Rs.18.47 crore as on 31 March 2018 mainly comprises term loans of Rs.7.98 crore, unsecured loans of Rs.0.50 crore and working capital borrowings of Rs.9.99 crore. The coverage indicators are moderate marked by Interest Coverage Ratio (ICR) which stood at 2.15 times for FY2018 as against 2.42 times for FY2017. The TOL/TNW stood high at 12.04 times as on 31 March 2018 as against 16.98 times as on 31 March 2017.

Acuite however believes the financial risk profile to improve over near term on account of infusion of funds by FMKPL.

• Working capital intensive nature of operations

BSLPL's operations are working capital intensive marked by high Gross Current Asset (GCA) days of 244 in FY2018 compared to 210 days in FY2017. The GCA days are mainly dominated by high debtor days of 119 in FY2018 and 139 days in FY2017 whereas the average inventory ranged between 70-125 days. This has led to higher utilisation of working capital limits which stood at around 90 percent for past six months ended February 2019.

Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Competitive and fragmented industry

BSLPL operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of organized and unorganized players in the sector limits bargaining power with the customers, besides moderate revenues in the segment. Further, with the swift change in the style, and tastes of the buyers may result in unsold inventory exerting pressure on the profitability.

Liquidity position

BSLPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals in the range of Rs.0.33-2.00 crore through FY2016-2018 whereas its maturing debt obligations stood in the range of Rs.0.40-0.60 crore for the same period. The cash accruals of the company are expected to be negative for FY2019-2021 on account of the heavy marketing fees it will have to give to Myntra and Jabong for using their channel for selling its goods. The current ratio of the company stood low at 1.08 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain weak over the medium term on account of negative cash accruals against the term loan repayments.

Outlook: Stable

Acuite the outlook on BSLPL will remain 'Stable' over the medium term on account experienced management and support from FMHPL. The outlook may be revised to 'Positive' in case the company exhibits healthy growth in cash accruals while managing its working capital requirements efficiently. Conversely, the outlook may be revised to 'Negative' in case of any dilution of support from FMKPL leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	114.11	73.47	56.05
EBITDA	Rs. Cr.	3.51	1.19	0.47
PAT	Rs. Cr.	1.72	0.51	0.32
EBITDA Margin	(%)	3.08	1.62	0.84
PAT Margin	(%)	1.51	0.69	0.57
ROCE	(%)	25.56	18.26	41.71

Total Debt/Tangible Net Worth	Times	2.83	3.14	0.00
PBDIT/Interest	Times	2.15	2.42	196.35
Total Debt/PBDIT	Times	3.74	6.69	0.00
Gross Current Assets (Days)	Days	244	210	156

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading entities - <http://acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
02-Aug-18	Cash Credit	Long term	15.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Long term	7.50	ACUITE BB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)

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About Acuite Ratings & Research:

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