

Press Release

Brand Studio Lifestyle Private Limited

June 02, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.22.50 Cr of Brand Studio Lifestyle Private Limited (BSLPL). The outlook is '**Stable**'.

About the Company

Bangalore-based, Brand Studio Lifestyle Private Limited (BSLPL) was incorporated in 2014 by Mr. Shyam Prasad, Mr. Anant Tanted and Mr. Rohit Jaiswal. BSLPL is 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. BSLPL owns eight different brands viz. Locomotive, Highlander, Mark Taylor, Black Coffee, Folklore, Visudh, Tokyo Talkies.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and improving business risk profile

BSLPL is promoted by Mr. Anant Tanted and Mr. Rohit Jaiswal who possess almost a decade experience. The experience of the promoters has helped BSLPL to establish eight clothing brands. BSLPL derives 70% of revenue through online portals like, Myntra, Jabong and rest from offline market places.

Further, BSLPL has registered turnover of Rs.255.83 crore in FY2019, growth from Rs.114.11 crore in FY2018. The turnover stood at Rs.73.47 crore in FY2017. Further, BSLPL has reported Rs.306.77 crore in 9MFY2020 (Provisional). The growth is mainly supported by brand accelerator agreement signed with Myntra. FK Myntra Holding Private Limited (FKMHPL) would be investing into BSLPL's equity shares in the form of Compulsorily Convertible Preference Shares or (CCPS). FKMHL has infused Rs.67.99 crore in FY2019 and expected to infuse Rs.34.85 crore in FY2020. Besides, FKMHL would be charging hefty selling expenses as per agreement.

Acuite believes that BSLPL would continue to benefit from promoters' vintage as well as deal with Myntra, which would further support in improvement of the business risk profile over the medium term.

Weaknesses

• Working capital intensive operations

BSLPL's operations are working capital intensive marked by high Gross Current Asset (GCA) days of 198 in FY2019 as against 244 in FY2018. GCA days are mainly dominated by high debtor days of 92 in FY2019 as against 119 in FY2018. The average inventory ranged between 70-125 days. This has led to higher utilisation of working capital limits. Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Average financial risk profile

BSLPL has an average financial risk profile marked by low net worth, average gearing and subdued debt protection metrics. The net worth of BSLPL stood at Rs.18.92 crore as on 31 March 2019 as against Rs.6.53 crore as on 31 March 2018. The gearing (debt-equity) stood at 1.17 times as on 31 March 2019 as against 2.83 times as on 31 March 2018. The total debt of Rs.22.10 crore as on 31 March 2019 mainly comprises working capital borrowings of Rs.14.17 crore and term loans of Rs.7.93 crore. The coverage indicators are subdued marked by Interest Coverage Ratio (ICR) which stood at negative 17.26 times for FY2019 as against

2.15 times for FY2018. TOL/TNW stood high at 7.00 times as on 31 March 2019 as against 12.04 times as on 31 March 2018. Acuite however believes the financial risk profile to improve over near term on account of infusion of funds by FK Myntra Holding Private Limited.

• **Highly fragmented and competitive industry**

BSLPL operates in a highly competitive and fragmented industry characterised by large number of players. Further, its current profitability remains modest, given the hefty selling expenses to be incurred under the agreement with Myntra and competition from others in the segment.

Liquidity position: Adequate

Liquidity profile of BSLPL is adequate reflected by adequate net cash accruals against its maturing debt obligations. BSLPL has reported negative cash accruals in FY2019 and expected to generate positive cash accruals in the range of Rs.1.97-4.32 crore over the medium term. The repayment obligations are expected to remain around Rs.0.30 crore for the period FY2020-2022. The utilisation of working capital limits more than 90 per cent. The current ratio stood at 1.05 times in FY2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against no major debt repayments.

Rating Sensitivity

- Increase in revenues while improvement in profitability
- Elongation in working capital cycle

Material covenants

None

Outlook: Stable

Acuite believes that the outlook on BSLPL will remain 'Stable' over the medium term on account of the experienced management and its improving business risk profile. The outlook may be revised to 'Positive' in case of its ability to further increase its scale of operations and improving profitability. The outlook may be revised to 'Negative' in case the company fails to increase its scale of operations or deterioration in the profitability and elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	255.83	3.08
PAT	Rs. Cr.	-56.23	1.72
PAT Margin	(%)	-21.98	1.51
Total Debt/Tangible Net Worth	Times	1.17	2.83
PBDIT/Interest	Times	-17.26	2.15

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
11-Apr-2019	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Upgraded from ACUITE BB- / Stable)
	Term Loan	Long Term	7.50	ACUITE BB / Stable (Upgraded from ACUITE BB- / Stable)
02-Aug-2018	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB / Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Applicable	7.50	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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