

Press Release

Brand Studio Lifestyle Private Limited

July 29, 2020

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

Acuite has upgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 22.50 Crore bank facilities of Brand Studio Lifestyle Private Limited (BSLPL). The outlook is '**Stable**'.

The upgrade in rating is on account of the continuous improvement in revenues and debt protection metrics arising out of Myntra brand accelerator program. Further, Acuite expects the company to benefit from the Myntra's Agreement going ahead.

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 rests from offline market places.

Further, BSLPL has registered a turnover of Rs.375.51 crore in FY2020 (Provisional), growth from Rs.255.83 crore in FY2019. The turnover stood at Rs.114.11 crore in FY2018. The growth is mainly supported by brand accelerator agreement signed with Myntra. FK Myntra Holding Private Limited (FKMHPL) would be investing in 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 FY2021. 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.

• Moderate financial risk profile

BSLPL has moderate financial risk profile marked by moderate net worth, low gearing and moderate debt protection metrics. The net worth of BSLPL stood at Rs.22.07 crore as on 31 March 2020 (Provisional) as against Rs.18.92 crore as on 31 March 2019. The gearing (debt-equity) stood at 0.92 times as on 31 March 2020 (Provisional) as against 1.17 times as on 31 March 2019. The total debt of Rs.20.23 crore as on 31 March 2020 (Provisional) mainly comprises working capital borrowings of Rs.12.47 crore and term loans of Rs.7.75 crore. The coverage indicators are also moderate marked by Interest Coverage Ratio (ICR) which stood at 2.66 times for FY2020 (Provisional) as against negative 17.26 times for FY2019. DSCR stood at 2.37 times for FY2020 (Provisional) as against negative 14.54 times for FY2019. TOL/TNW stood at 8.20 times as on 31 March 2020 (Provisional) as against 7.00 times as on 31 March 2019. Acuite believes that the financial risk profile would likely to improve over near term on account of infusion of funds by FK Myntra Holding Private Limited.

Weaknesses

• Working capital intensive operations

BSLPL's operations are working capital intensive marked by high Gross Current Asset (GCA) days of 181 in FY2020 (Provisional) as against 198 in FY2019. GCA days are mainly dominated by high inventory days of 114 in FY2020 (Provisional) as against 92 in FY2019. The average debtors ranged between 53-119 days for the last three years through FY2020 (Provisional). 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.

• Highly fragmented and competitive industry

BSLPL operates in a highly competitive and fragmented industry a characterised by a 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 adequately reflected by adequate net cash accruals against its maturing debt obligations. BSLPL has reported cash accruals of Rs.3.98 crore in FY2020 (Provisional) and expected to generate cash accruals in the range of Rs.6-15.00 crore over the medium term. The repayment obligations are expected to remain around Rs.0.37 crore for the period FY2021-2023. The utilisation of working capital limits more than 90 per cent. The current ratio stood at 1.09 times in FY2020 (Provisional). 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 the 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 | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 375.51 | 255.83 |
| PAT | Rs. Cr. | 3.15 | -56.23 |
| PAT Margin | (%) | 0.84 | -21.98 |
| Total Debt/Tangible Net Worth | Times | 0.92 | 1.17 |
| PBDIT/Interest | Times | 2.66 | -17.26 |

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-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|--|
| 02-Jun-2020 | Cash Credit | Long Term | 15.00 | ACUITE BB / Stable (Reaffirmed) |
| | Term Loan | Long Term | 7.50 | ACUITE BB / Stable (Reaffirmed) |
| 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 (Upgraded from ACUITE BB/ Stable) |
| Term Loan | Not Available | Not Applicable | Not Available | 7.50 | ACUITE BB+ / Stable (Upgraded from ACUITE BB/ Stable) |

Contacts

| Analytical | Rating Desk |
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| Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Simranjeet Kaur Analyst - Rating Operations Tel: 022-49294052 simranjeet.kaur@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research:

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