

Press Release

Brand Studio Lifestyle Private Limited

September 15, 2021

Rating Upgraded, Withdrawn



Total Instruments Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded its long-term rating to **'ACUITE BBB-' (read as ACUITE Triple B Minus)** from **'ACUITE BB+' (read as ACUITE Double B Plus)** to the Rs. 40.00 Cr bank facilities of Brand Studio Lifestyle Private Limited (BSLPL). The outlook is **'Stable'**.

The rating upgrade is driven by significant improvement in scale of operations and operating margins from Rs 374.19 Cr in FY20 to Rs 431.61 Cr in FY21 and from 1.70 per cent to 2.92 per cent, respectively over the same period. The improvement in scale of operation was despite the business disruption caused by COVID-19 pandemic and the improvement in operating margins were primarily due to shift of the business model from trading entity to manufacturing own products through job work model. Further, the net worth of the company improved on account of fund infusion from FK Myntra Holding Private Limited as a part of its Brand Accelerator Program.

The rating reflects the experience of the management, brand portfolio with strong recall value, fund infusion from FK Myntra Holding Private Limited under Brand Acceleration Program, Improvement in operating performance and moderate financial risk profile. The aforementioned rating strengths were constrained by working capital intensive nature of operations and presence in highly fragmented and competitive industry.

About the Company

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

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

Key Rating Drivers

Strengths

- **Experienced management and strong brand portfolio**

BSLPL is promoted by Mr. Anand Tanted with Mr Rohit Jaiswal and FK Myntra Holdings being other shareholders. Promoters and senior management of the company have over two decades of experience in branding, marketing, designing and supply-chain management, aiding in increased market penetration and maintaining longstanding relationships with suppliers and job work partners for garment manufacturing. Also, BSLPL owns eight different brands - Highlander, Locomotive, Vishudh, Tokyo Talkies, Ecko Unlimited, Folklore, Black Coffee and Mumbai Slang - that have good penetration in both online and offline markets with an average repeat customer of 30% for the top five brands. All the brands of the company sell affordable clothing for both men and women in the casual, smart casual and ethnic wear formats. Acuite believes, going forward, the company will be able to capitalize on the strong brand portfolio resulting in improvement in revenue over medium to long term.

- **Part of brand accelerator program by FK Myntra Holding Private Limited**

BSLPL is part of 5-year brand accelerator program promoted by FK Myntra Holding Private Limited (FKMHPL). As a part of the program, FKMHP will invest funds in form of equity in BSLPL, the amount so invested will be utilized by BSLPL for brand building activity on Myntra e-commerce platform. With Flipkart and Myntra together garnering 31.9% of the Indian ecommerce space (as of October 2020. Source: Forrester Research), BSLPL is expected to reap in the benefits as a part of brand accelerator program.

- **Improvement in operating performance**

Over the past 3 years, the revenue of the company improved from Rs 255.83 Cr in FY19 to Rs 431.61 Cr FY21 (CAGR of 30%) while the operating margin improved from -21.36 percent to 2.92 percent over the same period despite the high spending for brand building exercise. The company has shifted its business model from a garment trader to manufacturer who manufactures garments through job work. The company on a medium term plans to achieve a 70:30 split for revenue from manufacturing and trading respectively. Acuite believes, going forward, the spending on brand building will decline as a percentage of revenue and shifting from trading to manufacturing will impact the profitability of the company positively.

- **Moderate Financial risk profile**

The financial risk profile of the company is moderate as observed from the modest yet improving net worth and capital structure and adequate coverage indicators. The net worth of the company improved from Rs 23.48 Cr in FY20 to Rs 67.89 Cr in FY21. This improvement in net worth was primarily due to accretion of profits to net worth and the capital infusion by FK Myntra Holding Private Limited. The gearing improved from 0.84 times in FY20 to 0.48 times in FY21 despite the increase in debt, due to the capital infusion. Further, the total outside liabilities to net worth (TOL/TNW) improved from 7.73 times in FY20 to 2.88 times in FY21. The TOL/TNW was particularly higher due to high trade payables.

Coverage indicators improved with DSCR improving from 2.85 times in FY20 to 5.02 times in FY21 and Interest coverage improved from 3.19 times to 6.34 times over the same period.

Acuite believes, financial risk profile of the company would likely to improve over near term on account of infusion of funds by FK Myntra Holding Private Limited.

Weaknesses

- **Working capital intensive nature of operations**

Operations of the company are highly working capital intensive with gross current assets days in the range of 183 to 201 days over past 3 years ended FY21. This is primarily due to the high inventory the company has to maintain for managing e-commerce business. Further, the utilization of working capital limits are almost full for past 6 months ended July 2021. Acuite believes, considering the hyper growth phase of the company, the operations of the company are expected to remain working capital intensive.

- **Highly fragmented and competitive industry**

The company operates in highly competitive and fragmented industry with large number of organized and unorganized players. Moreover, the business is seasonal with lot of factors like various trends in fashion impacting the business of the company. Further, the brand acceleration agreement limits BSLPL to sell its primary brands to Myntra and Flipkart for e-commerce operations and this leaves other major e-commerce players inaccessible for the best brands of the company. And there is significant supplier concentration risk with top 3 suppliers contributing to almost 90 per cent of the purchases for the company.

Liquidity Position: Stretched

The liquidity position of the company is marginally stretched as observed from the utilization of working capital facilities which is almost fully utilized over past 6 months ended July 2021. Further, the company got its limits enhanced over the same period. The utilization of limits increased as the company shifted its focus from trading to manufacturing. However, the net cash accruals of the company improved from Rs 5.39 Cr in FY20 to Rs 10.81 Cr while the debt repayments for FY20 and FY21 was in the range of Rs 0.29 Cr to Rs 0.53 Cr.

Acuite believes, considering the high pace of revenue growth and the high level of inventory the company has to maintain to support its business through e-commerce companies, the liquidity position is expected to remain stretched which is, to a large extent mitigated by the fund infusion from FK Myntra Holding Private Limited.

Rating Sensitivities

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

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	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	431.61	374.19
PAT	Rs. Cr.	9.59	4.56
PAT Margin	(percent)	2.22	1.22
Total Debt/Tangible Net Worth	Times	0.48	0.84
PBDIT/Interest	Times	6.34	3.19

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29 Jul 2020	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 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)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Cash Credit	Not Applicable	8.25%	Not Applicable	30.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
HDFC Bank	Purchase Order Financing	Not Applicable	8.25%	Not Applicable	10.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Lakshmi Vilas Bank (now DBS)	Cash Credit	Not Applicable	Not Available	Not Applicable	15.00	ACUITE BBB- (Withdrawn) (Upgraded from ACUITE BB+/Stable)
Lakshmi Vilas Bank (now DBS)	Term Loan	Not Available	Not Available	Not Available	7.50	ACUITE BBB- (Withdrawn) (Upgraded from ACUITE BB+/Stable)

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About Acuité Ratings & Research:

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