

Press Release

Brand Studio Lifestyle Private Limited

March 01, 2022



Rating Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB- Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	40.00	-	-

*Refer Annexure for details

Rating Rationale

Acuité has withdrawn the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.40.00 crore bank facilities of Brand Studio Lifestyle Private Limited (BSLPL). The rating is being withdrawn on account of the request received from the company and the NOC received from the banker as per Acuité's policy on withdrawal of ratings.

About the Company

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

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of BSLPL to arrive at the rating.

Key Rating Drivers

Strengths

>Experienced management and strong brand portfolio

BSLPL is promoted by Mr. Anand Tanted and Mr. Mrinmay Ghosh 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 30-40% 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.

Acuité 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, FKMHPL 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 crore in FY2019 to Rs 431.61 crore FY2021 (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 already achieved turnover of Rs.565.12 crore for 9MFY2022 and is expecting to achieve Rs.742-743 crore in FY2022. 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.

Acuité 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.

>Comfortable financial risk profile

Financial risk profile of BSLPL is comfortable marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and comfortable debt protection metrics. The gearing improved and stood at 0.48 times as on March 31, 2021 against 0.84 times as on March 31, 2020 despite increase in debt, due to capital infusion. TOL/TNW stood at 2.88 times as on March 31, 2021 against 7.73 times as on March 31, 2020. The TOL/TNW was particularly higher in FY2020 due to high trade payables. Tangible net worth of the company improved and stood modest at Rs.67.89 crore as on March 31, 2021 against Rs.23.48 crore as on March 31, 2020. 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. Of the total debt of Rs.32.46 crore as on March 31, 2021, long-term debt stood at Rs.0.25 crore, short-term debt stood at Rs.32.03 crore and CPLTD stood at Rs.0.18 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood comfortable at 6.34 times and 0.33 times respectively in FY2021; while DSCR stood at 5.02 times in FY2021.

Acuité 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 operations

BSLPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 201 days in FY2021 against 183 days in FY2020. This is primarily due to the high inventory the company has to maintain for managing e-commerce business. The inventory days stood at 155 days in FY2021 against 118 days in FY2020. The inventory holding policy depends from season to season. The company generally maintains an inventory holding policy of 2-3 months during peak seasons (Big Billion Sale, Great Indian Festival, etc.) to cater to spot orders. The debtors' days stood at 42 days in FY2021 against 52 days in FY2020. The credit period given to customers is within 90 days. The creditors' days stood at 162 days in FY2021 against 190 days in FY2020. The company makes advance payment to their suppliers or enjoys a credit period of 30-90 days from their suppliers. However, cash credit remained utilized at 64.72 percent and purchase order financing remained utilized at 91.52 percent for last 6 months ended January, 2022.

Acuité 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.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material covenants

None

Liquidity Position: Adequate

BSLPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.5.39 crore – Rs.10.81 crore during the last three years through FY2019-21 against moderate repayment obligations in the range of Rs.0.18 crore – Rs.0.53 crore during the same period. It is expected to generate cash accruals in the range of Rs.19.44 crore – Rs.66.92 crore over the medium term, against moderate repayment obligations in the range of Rs.0.80 crore – Rs.0.95 crore. Unencumbered cash and bank balances stood at Rs.0.01 crore as on March 31, 2021 with a current ratio of 1.23 times in the same period. Liquid investments stood at Rs.2.25 crore as on March 31, 2021. The Company has not availed any covid loans / covid moratorium. However, cash credit remained utilized at 64.72 percent and purchase order financing remained utilized at 91.52 percent for last 6 months ended January, 2022.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	431.61	374.20
PAT	Rs. Cr.	9.59	4.56
PAT Margin	(%)	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

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Sep 2021	Term Loan	Long Term	7.50	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	30.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Inventory Funding	Long Term	10.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	15.00	ACUITE BBB- (Withdrawn)
29 Jul 2020	Term Loan	Long Term	7.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	15.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
02 Jun 2020	Term Loan	Long Term	7.50	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BB Stable (Reaffirmed)
11 Apr 2019	Term Loan	Long Term	7.50	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Cash Credit	Long Term	15.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	8.25	Not Applicable	30.00	ACUITE BBB- Withdrawn
HDFC Bank Ltd	Not Applicable	Inventory Funding	Not Applicable	8.25	Not Applicable	10.00	ACUITE BBB- Withdrawn

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Ashvita Ramesh Analyst-Rating Operations Tel: 022-49294065 ashvita.ramesh@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in KanjurMarg, Mumbai.

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