

July 30, 2020

## Bewakoof Brands Private Limited: [ICRA]BBB-(Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Working capital limits	17.00	[ICRA]BBB-(Stable); assigned
Term loan	4.98	[ICRA]BBB-(Stable); assigned
<b>Total</b>	<b>21.98</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating takes into account the strong technical background of the promoters' of Bewakoof Brands Private Limited (BBPL), supported by an experienced team of professionals in the e-commerce retail business. The rating notes BBPL's wide product portfolio for men and women in the economy price segment, along with its expanding footprint across India through its online portal, which has enabled fast-paced growth in revenues in the past few years. The rating draws comfort from the company's comfortable capital structure as indicated by a low gearing of 0.4 times as on March 31, 2020, supported by multiple rounds of sizeable series investments by private equities, leading to strengthening of net worth.

The rating, however, is constrained by the existing challenge to profitably scale up its operations. The company is expanding its business, which necessitate sizeable spending on advertising and marketing expenses for improving its brand visibility and enable customer acquisition. However, the same resulted in operating losses in FY2020. ICRA notes that the company's ability to secure adequate and timely funding support from the investors will remain critical to meet its working capital requirements and capex for product diversification and thus will be a rating sensitivity. The rating is constrained by BBPL's vulnerability to consumer spending, which is closely linked to macro-economic prospects and intense competition due to the rampant discounting by e-commerce companies offering multiple brands of clothing merchandise under one roof. This, coupled with the ongoing unfavourable business environment, amid the pandemic resulting in nationwide disruptions, will likely exert pressure on its sales and profitability in the near term, as reflected by the steep decline in sales for Q1 FY2021, compared to the same period last year; though, changing consumer preferences towards e-commerce retail segment due to the ease of accessibility over the traditional retail segment, particularly, in the pandemic crisis situation is likely to expand the market share of e-commerce players like BBPL in the near term. ICRA notes that, other than the usual exit options available to the private equity (PE) investors in the form of initial public offering (IPO)/strategic sale, there is a buyback clause on the company in case other forms of exit do not materialise by a pre-fixed timeline. Any material liability on BBPL in case of the buyback option being triggered by the investors, adversely impacting the capital structure or liquidity profile, will remain a key monitorable.

BBPL has opted for moratorium in line with the Reserve Bank of India's (RBI) circular for six months on its working capital and term loan facility due to the uncertainty in the market conditions post the imposition of lockdown. Nevertheless, ICRA draws significant comfort from the company's adequate liquidity position at present, supported by fresh rounds of PE fund infusion to the tune of Rs. 3 crore in Q1 FY2021, which will aid in meeting the business and financial obligations comfortably over the near term. BBPL has secured substantial investment from reputed PE players totalling to ~Rs. 68 crore over the past five to six years. Going forward, the company's ability to raise additional capital would be a key rating sensitivity, as this would act as much needed growth capital for scaling up the business in an intensely competitive landscape.

The Stable outlook reflects ICRA's opinion that BBPL will continue to benefit from the extensive experience of its promoters, diversified product profile, which is designed to cater to the needs of millennials and its expanding footprints across India.

## Key rating drivers and their description

### Credit strengths

**Technically competent management supported by experienced professionals** – Incorporated in 2011, BBPL is promoted by Mr. Prabhkirandeep Singh and Mr. Siddharth Munot, both being alumni of the Indian Institute of Technology, Bombay. While Mr. Singh handles the designing, marketing, front-end technology, customer care, investor relations, Mr. Munot looks after the operations, accounts and finance, back-end technology, commercial and human resources. The management is supported by a team of professionals with expertise in individual fields.

**Diversified product profile and expanding customer base across India likely to support scale of operations** – BBPL has an online distribution network with most of its sales concentrated in North and West India, each of which account for ~25-30% of the revenues, followed by South India (~20%), East India (~15-25%), and the balance (5-7%) from other regions during FY2017-FY2020. The company's revenues witnessed a healthy CAGR of ~72% to Rs. 214.51 crore in FY2020 from Rs. 14.22 crore in FY2015. The significant YoY improvement in its operating income (OI) is on account of an expanding customer base with BBPL offering unique products at affordable prices, coupled with addition of cross selling products such as mobile covers, bags, footwear, accessories, etc, over the years.

**Comfortable capital structure with sizeable investments from PE investors leading to strengthening of net worth**– Despite incurring losses during the initial years of its operations, series funding in the form of CCPS has led to a healthy net worth base of Rs. 57.8 crore as on March 31, 2020. The company raised equity in the form of series seed funding amounting to ~Rs. 68 crore during FY2016-FY2020. The improvement in net worth resulted in a comfortable capital structure with a gearing of 0.4 times as on March 31, 2020, which improved from 1.3 times as on March 31, 2019.

### Credit challenges

**Profitable scaling up of business remains critical given sizeable spending on advertisement and marketing for brand expansion and customer acquisition** – Being in the online retail market, BBPL spends heavily on advertisement and marketing activities in order to increase its customer base and thereby the revenues. However, in FY2020, it explored new channels of promotion, which caters to a larger share of market leading to a significant spike in the advertising and marketing expenses and resulted in operating losses. While the company is likely to reap the benefits of the brand building expenses incurred in FY2020 in the near future, the extent of the same remains to be seen.

**Intense competition from various e-commerce retail giants offering multiple products under single portal** – The company operates in a highly fragmented and competitive domestic market, dominated by the unorganised sector. While BBPL is present just through its website and mobile app, it faces huge competition from other retail giants, which offer multiple brands under a single roof. Nevertheless, BBPL has plans to tie up with other online portals in the near future to gain visibility and increase its market share.

**Timely and adequate funding for business growth coupled with timely exit to investors without any material liability on BBPL remains critical for credit profile** – BBPL has seen multiple rounds of investments over the years in the form of CCPS to support the business growth. The company expects to get a further funding of Rs. 25 crore in FY2021 from its existing investors. Moreover, it is in talks with new investors to support the scaling up of its operations, of which it has received an amount of Rs. 3 crore in Q1 FY2021. Being in its growing phase, adequate and timely inflow of funds is critical for its growth and scalability of operations. Additionally, any material liability on the company in case of buyback exercise by the investors in the absence of an IPO or strategic sale within the stipulated time will remain a key monitorable.

**Sales exposed to changing consumer preferences, discretionary consumer spending and prevailing unfavourable business environment amid pandemic-driven disruptions** – BBPL's sales, profitability and cash accruals, like any other online retailer, are closely linked to macro-economic conditions, consumer confidence and spending patterns, particularly considering the discretionary nature of its products. In addition, with the expected adverse impact of the Covid-19 pandemic on the apparel industry, ICRA expects BBPL's operating performance to remain under pressure in the coming months. While normalcy is likely to be restored in the coming days across most locations, demand recovery is expected to be slow. Discretionary consumer spending is anticipated to remain at a relatively lower level than the pre-pandemic levels initially. Given the high proportion of fixed costs and the consistent additional advertisement expenses, revenue fluctuations will continue to have a bearing on the company's profitability.

### Liquidity position: Adequate

Although BBPL's working capital limit utilisation has remained near to full over the last 15 months, ending in May 2020, its liquidity profile is supported by regular rounds of equity infusion by its investors. Additionally, the company raised Rs. 3-crore equity in June 2020, which resulted in sharp decline in utilisation in June 2020, with undrawn limits of ~Rs. 10 crore (considering the adhoc limit of Rs. 1.7 crore) available as on June 30, 2020. It has liquid investments worth ~Rs. 8 crore as on June 13, 2020. Despite that, BBPL has opted for moratorium to maintain its liquidity profile. In this context, ICRA derives comfort from fact that repayment obligations during the next two to three years is in the range by Rs. 2-3 crore, which should be easily be covered by accruals and expected regular infusions from the investors.

### Rating sensitivities

**Positive triggers** – The rating will be upgraded if BBPL reports an improvement in its revenue and profitability, along with efficient management of working capital support, strengthening its credit profile. In addition, widening its geographical presence and brand visibility will support its credit profile. Moreover, an improvement in the company's liquidity profile, on a sustained basis, will be a key positive trigger.

**Negative triggers** – Any delay in adequate and timely infusion of equity to support the business growth or continued pressure resulting in cash losses due to factors including, but not limited to, the prolonged impact of the pandemic, may result in a downward pressure on the rating.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Rating Methodology</a> <a href="#">Indian Textiles Industry – Apparels</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial statements.

### About the company

Incorporated in August 2011, Bewakoof Brands Private Limited (BBPL) is a millennial fashion wear brand involved in online retailing of merchandise including theme-based apparels, shoes, mobile covers, bags accessories, etc, through its website ([bewakoof.com](http://bewakoof.com)) and mobile application across India. The company is jointly promoted by Mr. Prabhkirandeep Singh and Mr. Siddharth Munot.

The company has set up its manufacturing facility in Bhiwandi, Maharashtra, where it undertakes cutting, stitching and printing of apparels. Its head office is in Powai, Mumbai.

In FY2020, the company reported a net loss of Rs. 15.9 crore on an operating income (OI) of Rs. 214.5 crore, over a net profit of Rs. 1.9 crore on an OI of Rs. 164.2 crore in FY2019.

### Key financial indicators

	<b>FY2019 Audited</b>	<b>FY2020 Provisional</b>
Operating Income (Rs. crore)	164.2	214.5
PAT (Rs. crore)	1.9	-15.9
OPBDIT/OI (%)	4.5%	-3.7%
PAT/OI (%)	1.2%	-7.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.6	0.9
Total Debt/OPBDIT (times)	3.1	-2.7
Interest Coverage (times)	4.0	-2.1

### Status of non-cooperation with previous CRA:

BBPL has an outstanding rating of ACUITE BB+ (Downgraded from ACUITE BBB/Stable) Issuer not co-operating dated July 16, 2020.

### Any other information: None

## Rating history for past three years

Current Rating (FY2021)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
1 Cash Credit	Long term	17.00		30-Jul-20 [ICRA]BBB-(Stable)	-	-	-
2 Term loan	Long term	4.98	4.98	[ICRA]BBB-(Stable)	-	-	-

Amount in Rs. crore

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit				17.00	[ICRA]BBB-(Stable)
NA	Term loan 1	2018	9.25%	2023	2.58	[ICRA]BBB-(Stable)
NA	Term loan 2	2019	9.25%	2024	2.40	[ICRA]BBB-(Stable)

Source: BBPL

### Annexure-2: List of entities considered for consolidated analysis – NA

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