

May 10, 2021

Enrich Hair and Skin Solutions Pvt Ltd: [ICRA]BBB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	25.00	[ICRA]BBB-(Stable); Assigned
Total	25.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into account the 15-year long track record of the Enrich Hair and Skin Solutions Pvt. Ltd. (EHSSPL/the company) in the salon industry; its established brand “Enrich” in the geographies it operates in India; and the presence of Westbridge Capital as majority stakeholder, which in turn has demonstrated track record of infusing funds for growth capital as well as for smooth running of operations. The ratings also derive comfort from the company’s diversified service offerings (salon and product sales in retail and online both) and tie up with reputed international hair and skin grooming brands, which also lends credibility to the product offerings. The rating also derives comfort from the company’s comfortable capital structure, as reflected by the gearing of 0.5 times as on FY2020-end; the adequate liquidity supported by cash and liquid investments of Rs. 26.0 crore as of FY2020-end; the further infusion of capital worth ~Rs. 36.0 crore in FY2021 by Westbridge Capital to support expansion and business operations; and the undrawn working capital limits.

The assigned ratings, however, remain constrained by the intense competition in the salon industry, as well as the challenges related to scaling up of the business given the relatively long gestation period for achieving store break-even as high-end grooming services are a part of discretionary spending. The financial profile hence remains average, marked by low operating profitability, net losses and average coverage indicators. ICRA also notes that the company was impacted adversely in FY2021 by the Covid-19 pandemic, and is expected to report higher losses in FY2021 compared to the last fiscal. However, the liquidity buffer available by virtue of regular infusions by Westridge and the company’s stringent measures for cost control are credit positives. The company also has curtailed its expansion plan for the immediate future, given the resurgence of the second wave of Covid-19, to conserve liquidity, and is expected to judiciously tread on the expansion path only after proper demand recovery.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA’s opinion that EHSSPL will continue to maintain its business positioning in the salon industry, supported by strong promoter backup and established brand presence.

Key rating drivers and their description

Credit strengths

Established track record of company and promoters in salon industry - The promoters have extensive experience and the company has an established track record in the salon industry, spanning more than 15 years. Over the years, the company has expanded its geographical reach in western India and Bangalore and has established itself as a prominent player in the salon industry while enjoying a healthy brand recall.

Diversified product and service offerings – The company has diversified service offerings in the hair and skin segment, which facilitate cross-selling opportunities. The company has partnered with established brands such as L’Oréal Professional, Decleor, Kerastase, Naturica for product sales in its salon and online retail. Further, the company has also tied up with Kerastase and Naturica brands to provide services in collaborations at their salon.

Substantial investment from reputed PE investor strengthens net worth base and liquidity profile– The company has received substantial investment from a reputed PE investor, Westbridge Capital, worth ~Rs. 101.0 crore over FY2019-FY2021 through equity stake purchase to support business expansion. This has also led to strengthening of the net worth base and shoring up liquidity buffer, which would help the company handle any external shocks like Covid -19 in the near to medium term. The net worth stood at Rs. 63.5 crore as on FY2020-end, which ensures comfortable capital structure, as reflected in the gearing of 0.5 times as on FY2020-end.

Credit challenges

Average financial risk profile marked by subdued profitability and average coverage indicator – The company's operating margin remains low (3.1% - 7.7% from FY2016 to FY2020) because of high overheads majorly related to manpower and rental expenses. Furthermore, the operating margin was particularly impacted in FY2019 and FY2020, given the aggressive store expansion strategy, wherein returns take a long time. With a low operating margin and high depreciation and finance cost, the company reported losses during the last five years. Further, with low profitability and high finance cost, the coverage indicator remained average as reflected by the interest coverage of 0.8 times, TD/OPBDITA of 8.2 times and DSCR of 0.6 times as on FY2020-end.

Exposure to intense competition – The company faces stiff competition from organised players such as Lakme, VLCC, Jawed Habib apart from other regional unorganised players. Besides this, the company also faces intense competition in product sale from existing and new entrants with them launching new products frequency.

Challenges pertaining to business scale-up, given long gestation period and susceptibility to external shocks like Covid-19 - The hair and skin care service industry was adversely impacted by the Covid-19 pandemic and aligned restrictions, which adversely impacted its revenue and profitability in FY2021. Also, challenges remain with retail business scale up, given the long gestation period and the discretionary nature of high-end skin care spending. Given the resurgence of the second wave of Covid-19, the company has curtailed its expansion plan for the medium term and is expected to follow prudent expansion strategy, given that liquidity conservation will gain prominence, till demand recovery is clearly visible.

Liquidity position: Adequate

The company's liquidity profile remains adequate given the availability of cash and liquid investment of Rs. 26.0 crore as on FY2020-end; capital infusion of ~Rs. 36.0 crore in FY2021 by Westbridge Capital to support expansion and business operations, and the undrawn working capital limits (almost nil utilisation over the 14-month period of January 2020 – February 2021), which provides a cushion against debt repayment in the near term. Further, ICRA also expects the promoter to infuse funds in case of any exigency, which will support the liquidity levels as was demonstrated in the recent past.

Rating sensitivities

Positive factors – ICRA could upgrade EHSSPL's rating if a significant and sustained increase in scale and profitability leads to higher-than-expected cash accruals or strengthening of the net-worth base improves the capital structure and the overall liquidity profile of the company. Specific credit metric that could lead to an upgrade is TD/OPBDITA less than 2.5 times on a sustained basis.

Negative factors – Negative pressure on EHSSPL's rating could arise if a significant decline in scale and profitability leads to lower-than-expected cash accruals, leading to sustained pressure on coverage indicators and weakening of capital structure and overall liquidity profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of the Enrich Hair and Skin Solutions Private Limited.

About the company

Incorporated in 2005, by Mr. Vikram Bhatt, Mr. Rohit Dedhia and Mr. Mulchand Dedhia, EHSSPL provides hair and skin service industry. The company has 83 hair and beauty salon in six cities, Mumbai, Bangalore, Ahmedabad, Pune, Vadodara and Surat, under the brand 'Enrich'. The company also runs an academy each in 6 cities, which provides training courses in hair care, skin and salon management. The company also trades hair and skin care products for brands such as kerastase (Paris), L'oreal Professional, Decleor, and Naturica, apart from online sales of L'oreal Professional products on online retail platform - Nykaa.com. JM Financial Trust Company (JMTFC) in 2010 bought stake in the company, which in turn was further bought by Westbridge AIF in FY2019. Further, Westbridge Capital held 74.94% stake in the company as on March 31, 2021.

Key financial indicators (audited)

OLPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	180.6	214.8
PAT (Rs. crore)	(2.5)	(6.6)
OPBDIT/OI (%)	5.2%	1.8%
PAT/OI (%)	-1.4%	-2.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	0.8
Total Debt/OPBDIT (times)	2.8	8.2
Interest Coverage (times)	2.4	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 10, 2021	-	-	-
1	Term Loan	Long-term	25.00	25.00	[ICRA]BBB-(Stable)	-	-	-

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2020	NA	FY2024	25.00	[ICRA]BBB-(Stable)

Source: Company data

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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