

August 26, 2022

## Enrich Hair and Skin Solutions Pvt Ltd: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based - term loan	25.00	0.00	-
Long-term - unallocated	-	25.00	[ICRA]BBB-(Stable); reaffirmed
<b>Total</b>	<b>25.00</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the rating continues to factor in the long track record of Enrich Hair and Skin Solutions Pvt. Ltd. (EHSSPL or the company) in the salon industry, recognition of its brand 'Enrich' in the hair and beauty services segment and its diversified presence in western and southern India. The rating also continues to derive comfort from the company's well-diversified service offerings (salon and product sales in both retail and online platforms) and tie-ups with reputed international hair and skin grooming brands, which in turn lends credibility to its product offerings. Although the company reported a notable 31% growth in the top line in FY2022 over FY2021, given normalisation of store operations with the waning of the Covid-19 pandemic, it continued to report net losses, due to high overheads related to manpower costs and rentals. Despite losses in FY2022, the company's liquidity profile remained adequate, along with a stable net worth base owing to equity infusion of Rs. 15 crore by its major stakeholder – Westbridge Capital AIF (Westbridge) in FY2022. Further, in Q1 FY2023, Westbridge infused an additional Rs. 128 crore for growth capital as well as funding losses, if any, given the aggressive expansion plans of the entity in the near to medium term. The sizeable funding support by Westbridge also enabled the company to prepay its term borrowings, limit its dependence on working capital borrowings, and is expected to be sufficient to fund its near-term store expansion capex. Westbridge's demonstrated track record of rendering timely funding support to the company lends comfort from the credit perspective.

The rating, however, remains constrained by the intense competition in the salon industry, which limits the pricing flexibility for the players. This apart, the company faces challenges related to scaling up of the business, given the relatively longer gestation period for achieving store break-even as high-end grooming services are a part of discretionary spending. Also, high employee expenses emanating from the need to retain skilled talents, along with high rental costs, continue to impact the operating cost structure.

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 back-up and established brand presence.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters and established track record of company in salon industry** - The founding promoters have an extensive experience in the hair and beauty services segment. Further, the company has an established track record in the salon industry, spanning over 15 years. Over the years, the company has expanded geographically in western India and Bengaluru and has established itself as a prominent player in the salon industry while enjoying a healthy brand recall.

**Diversified product and service offerings in hair and skin segment, which facilitate cross-selling opportunities** - The company has well-diversified service offerings in the hair and skin segment, which facilitate cross-selling opportunities. Also, the

company has partnered with reputed brands in the hair, skin and beauty segment such as 'Lo'real Professional', 'Decleor', 'Kerastase', 'Naturica' for their product sales in its salon as well as online retail platform. Further, the company has tied-up with 'Kerastase' and 'Naturica' to provide services in collaborations at their salon.

**Steady investments from reputed PE investor strengthens net worth base and supports liquidity profile** - The company has received substantial investments from a reputed PE investor, Westbridge Capital, worth ~Rs. 244.0 crore over FY2019-Q1 FY2023 through equity stake purchase to support its business expansion. This has strengthened the net worth base and shored-up a liquidity buffer, which would help the company handle any external shocks like the Covid -19 pandemic in the recent past.

### Credit challenges

**Continued operating losses emanating from high employee cost and rental expenses; net profitability impacted due to high depreciation cost** – The company incurred an operating loss of Rs. 8.6 crore in FY2022 (moderated from Rs. 10.8 crore in FY2021), despite an increase in revenues to Rs. 169.1 crore in FY2022 from Rs. 129.8 crore in FY2021, when the business was impacted due to the pandemic-induced disruptions. The operating losses were due to the escalation in overhead costs mainly related to manpower and rental expenses. Further, high depreciation cost continues to result in sizeable losses for the company at the net level in FY2022.

**Fragmented industry with presence of organised and unorganised players leading 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 faces intense competition in product sales from existing and new entrants with new products being launched frequently.

**Business scale-up challenges like, given long gestation period and the discretionary nature of high-end skin care spending; susceptibility to external shocks like Covid-19** - The hair and skincare service industry was adversely impacted by the Covid-19 pandemic and aligned restrictions, which in turn adversely impacted the company's revenue and profitability in FY2021 and FY2022. Also, challenges remain with retail business scale-up, given the long gestation period and the discretionary nature of spending on high-end skincare. This apart, the business continues to be susceptible to the general economic environment as well as availability of disposable income, given the discretionary nature of the product profile.

### Liquidity position: Adequate

The company's liquidity position remains adequate, with repayment of all its long-term debt as on July 31, 2022, and, thus, it has no scheduled repayment obligations. Further, the sizeable equity infusion of Rs. 128 crore by Westbridge in April 2022 will be sufficient to meet its near-term store expansion plans and working capital requirements. The company also has an overdraft facility of Rs. 2.50 crore, which was sparsely utilised in the last 12 months.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if there is a sustained increase in scale and profitability, which in turn will lead to healthy cash accruals, on sustained basis

**Negative factors** – Pressure on EHSSPL's rating could arise, if any significant decline in scale or delay in turnaround in operations leads to sustained pressure on coverage indicators and cash flows, or material weakening in the overall liquidity profile of the company.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of the Enrich Hair and Skin Solutions Pvt Ltd.

## About the company

Incorporated in 2005, by Mr. Vikram Bhatt, Mr. Rohit Dedhia and Mr. Mulchand Dedhia, EHSSPL provides hair and skin-related services. The company has 83 hair and beauty salons in six cities, Mumbai, Bengaluru, Ahmedabad, Pune, Vadodara and Surat, under the brand 'Enrich'. The company also runs an academy each in six cities, which provides training courses in hair care, skin and salon management. EHSSPL also trades hair and skincare products for brands such as 'Kerastase' (Paris), 'L'oreal Professional', 'Decleor', and 'Naturica', apart from online sales of 'L'oreal Professional' products through the online retail platform - Nykaa.com.

In CY2010, JM Financial Trust Company (JMTC) bought a majority stake in the company, which was later bought by Westbridge AIF in FY2019. As on July 31, 2022, Westbridge Capital holds the majority stake of 81.7% in the company after a series of equity infusion.

### Key financial indicators (audited)

OLPL Standalone	FY2021	FY2022*
Operating income	129.8	169.5
PAT	-21.5	-21.4
OPBDIT/OI	-8.3%	-5.1%
PAT/OI	-16.6%	-12.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.7
Total debt/OPBDIT (times)	-1.9	-1.9
Interest coverage (times)	-2.9	-2.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore \*Provisional*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Aug 26, 2022	May 10, 2021	-	-
1	Term loans	0.00	-	-	[ICRA]BBB-(Stable)	-	-
2	Unallocated	25.00	-	[ICRA]BBB-(Stable)	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	-	25.0	[ICRA]BBB-(Stable)

Source: Company

## Annexure II: List of entities considered for consolidated analysis – Not Applicable

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