

January 04, 2017

## Jade Blue Lifestyle India Limited

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit	58.00	[ICRA]BBB+ Reaffirmed; '(Stable)' outlook
Term Loans	11.18	[ICRA]BBB+ Reaffirmed; '(Stable)' outlook
Stand-by Letter of Credit	7.00	[ICRA]BBB+ Reaffirmed; '(Stable)' outlook
Un-allocated Limits	3.14	[ICRA]BBB+ Reaffirmed; '(Stable)' outlook
<b>Total</b>	<b>79.32</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 76.18 crore<sup>1</sup> long term fund based limits and the Rs. 3.14 crore un-allocated limits of Jade Blue Lifestyle India Limited (JBL)<sup>2</sup>. The outlook on the long-term rating is 'Stable'.

### Rationale

The rating reaffirmation continues to take into account the management's experience of over three decades, company's established position in Gujarat through its Jade Blue brand, healthy revenue growth in FY 2015-16, driven by healthy same store sales growth and opening of new stores; rise in profitability levels with increased portion of sales derived from own brand sales as well as satisfactory cash accruals.

The rating, however, continues to remain constrained by the high working capital intensity of operations which is on account of high levels of inventory for the existing stores, as well as for the new stores and also season leftovers, which keeps the funding requirements high. Given the fast changing fashion trends, ability to minimize the season leftover on a consistent basis remains critical to minimize inventory write-down risk and limit liquidation through higher proportion of discounted sales, which impacts the profitability. As the company has expansion plans, it may require investment towards store interiors and furniture (if expansion is not through franchisee model), besides the investment towards working capital, hence the dependence on the external funding is expected to remain high. As any significant increase in the debt levels would put pressure on the financial profile of the company, hence the ability to efficiently manage the working capital cycle and improve the profitability levels along with regular infusion of equity capital would be critical to limit the dependence on debt and maintain the debt coverage and liquidity. Moreover, while the company is well established in Gujarat, as it expands to other states, it competes with existing established players and has to incur additional investment towards brand building, which shall continue to exert pressure on the profitability. Though the company would benefit from enhanced brand presence through a diversified geographic presence and also economies of scale going forward. The rating is also constrained by JBL's vulnerability to adverse economic conditions like weakness in consumer spending and high competitive intensity in the domestic apparel retail market which is highly fragmented.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating definition, please refer to ICRA Website [www.icra.in](http://www.icra.in) or any of the ICRA Rating Publications

## Key rating drivers

### Credit Strengths

- Healthy same store sales growth along with sales from new stores resulted in strong revenue growth in FY2015 and FY2016, coupled with increase in profitability and satisfactory accruals;
- Decent scale of operations, with a chain of 18 multi-brand outlets across a total retail area of ~1.44 lakh sq. ft., which results in some bargaining power with third party brands;
- Diversified brand portfolio by retailing a number of leading apparel brands in addition to in-house brands; the company's in-house brands are well established in Gujarat and offers a wide product portfolio ranging from formal, casual to wedding wear for men.
- Experienced promoters supported by a professional management team.

### Credit Weakness

- High working capital intensity of operations, due to high levels of inventory for existing stores, support opening of new stores and season leftovers that keeps funding requirement high;
- Ability to minimise season leftovers on a consistent basis remains critical to minimise inventory write-down risks;
- Working capital borrowing and proposed expansion plan might keep dependence on external funding high; ability to efficiently manage the working capital cycle and improve profitability would be critical to limit dependence on debt, while maintaining debt coverage and liquidity.
- Expansion outside Gujarat to put pressure on profitability due to competitive pressures from established players and investment required towards brand promotion;
- Fragmented and competitive market dominated by the unorganised sector;
- Susceptibility of sales growth and profitability to economic cycles, which impacts discretionary spending.

### Description of key rating drivers highlighted above:

The Jade Blue showrooms sales continued to account for most of the sale at 84% (~Rs. 219 crore) of the total sales in FY2016 with majority sales in FY2016 coming from the three showrooms in Ahmedabad accounting for ~39% of total sales in FY2016. Sales from other brands (apparels and fabric) continue to account for the major proportion of JBL's sales, although the same has moderated to ~62% of total sales in FY2016 (compared to 72% in FY2014 and 65% in FY2015) in the Jade Blue showrooms. The rest is generated by sales from its in-house brand, Jade Blue (which has increased to 38% in FY2016 over 35% in FY2015). The competitive intensity remains high with dominance of unorganized sector, however the risk is mitigated to an extent by well established brand 'Jade Blue' and over three decades experience of the promoters in garment retailing industry. The growth in the operating income continues to remain healthy, increasing by 12% from ~Rs. 220 crore in FY2015 to ~Rs. 247 crore in FY2016. The profitability continues to remain comfortable and has increased with increase in Jade Blue (own sales) garments, with an operating profitability of 13.08% and a net profitability of 3.82% in FY2016. With growth in revenue during FY 2015-16, the debt levels also increased by 9% to Rs.82.54 crore from Rs. 75.48 crore in FY2015 on account of increase in working capital borrowings and unsecured loans. The increase in debt resulted in moderation in debt coverage indicators with OPBDITA/Interest at 3.76 times, Total Debt/OPBDITA moderating to 2.55 times for FY2016. The working capital intensity (NWC/OI) increased to 34% in FY2016 from 32% in FY2015 due to increase in inventory days. The company has recently opened one new Jade Blue showroom in Valsad (4800 sq. ft.) in October 2016 and plans to add two more Jade Blue showrooms in Bhopal (8600 sq. Ft) and Jamnagar(4400 sq. ft.). Further, the company also proposes to have a centralised tailoring facility at Khokra (Ahmedabad), to ensure higher precision in customised tailoring and for manufacturing of bespoke, wedding wear and jackets (including modi jackets) in-house. The total capex towards the showroom addition and centralisation factory is estimated at Rs. 11.78 crore and is proposed to be funded through term loan of Rs. 9.00 crore and balance through internal accruals.

### Analytical approach

For arriving at the ratings, ICRA has considered the business and the financial risk profiles of Jade Blue Lifestyle India Limited (JBL), including all its showroom business under Jade Blue, Greenfiber and JB Studio apart from its customized stitching business.

### Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

### About the Company:

Jade Blue Lifestyle India Limited (JBL) was incorporated in 1995 as Supremo Fashion World Pvt. Ltd.; but was renamed as Jade Blue Lifestyle India Ltd. in February 2011. JBL is engaged in retailing men's apparel, both under its own brands—Jade Blue, JB Studio and Greenfiber—as well as that of other leading apparel brands. The company is promoted by Mr. Jitendra Chauhan and Mr. Bipin Chauhan, who have over three decades of experience in this industry. JBL's first multi-brand showroom was opened on C.G. Road in Ahmedabad, Gujarat, in 1995. As on August 16, 2016, there were 18 multi-brand showrooms under its Jade Blue brand, 29 exclusive Greenfiber showrooms, and five exclusive JB Studio showrooms.

For the year FY 2016, the company reported an operating income of Rs. 247.11 crores and profit after tax of Rs. 9.43 crore as against an operating income of Rs.219.66 crore and profit after tax of Rs 8.49 crore during FY 2015.

### Rating History for last three years:

**Table: Rating History for BLR Rating**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	October 2015	August 2014	February 2013
1	Term Loans	Long Term	18.64	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	58.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	SLC	Long Term	7.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Unallocated	Long Term	3.14	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[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](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Term Loans	October 2016	12.20% p.a.	-	11.18	[ICRA]BBB+(Stable)
Cash Credit	October 2016	11.30%p.a.	-	58.00	[ICRA]BBB+(Stable)
SLC	October 2016	12.30% p.a.	-	7.00	[ICRA]BBB+(Stable)
Unallocated	October 2016	-	-	3.14	[ICRA]BBB+(Stable)

Source: Jade Blue Lifestyle India Ltd.



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