May 27, 2021

Vaibhav Global Limited: [ICRA]A(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	25.00	[ICRA]A(Stable); assigned
Total	**25.00**	

**Instrument details are provided in Annexure-1*

Rationale

While assigning the credit rating, ICRA has taken a consolidated view of Vaibhav Global Limited (VGL), its seven subsidiaries and five step-down subsidiaries, given the common management and significant operational and financial linkages among them.

The assigned rating factors in the extensive experience of over two decades of VGL's promoters in the fashion jewellery and lifestyle products e-retail business, its end-to-end vertically integrated business model with an established supplier network. High share of private label sales as well as attractive value positioning of its products helped VGL generate consistent gross profit margins of over 60% over the last five fiscals. The rating also favourably factors in the extensive coverage of the company-operated television channels with a reach of 104 million households in FY2021 across the US and the UK. The rating also derives strength from the strong financial risk profile of the company, characterised by comfortable capital structure and robust debt coverage indicators along with its adequate liquidity position with cash and liquid investments of Rs. 468.4 crore as on March 31, 2021.

The rating is, however, constrained by VGL's exposure to high geographical concentration risk with sales primarily emanating from the US and the UK regions as well as intense competition in these geographies, where the company directly competes with large and established players in TV - home shopping segment, as well as from other e-commerce players. Besides, VGL's operations remain exposed to local regulations as well as demand prospects in these countries.

The rating is also constrained by the inventory carrying risk because of high inventory holding period (given VGL's vast product range), which resulted in high working capital intensity of operations. ICRA, however, notes that the company is generally able to liquidate its aged inventory through innovative mechanisms like rising auctions. Around 36% of the company's sales (in FY2021) came through budget-pay schemes, which expose VGL's operating profit margins (OPM) to the risk of bad/doubtful debts. ICRA notes that the OPM of the company also remains susceptible to foreign exchange fluctuations on account of its foreign operations, though it hedges the major portion of the same through forward contracts.

ICRA notes that the company has received a notice from the Income Tax Department under Section 148 of the Income Tax Act, 1961. The Hon'ble Rajasthan High Court has, however, stayed the above order. As per the management, the demand is not tenable in law. ICRA would continue to monitor developments in this regard.

The Stable outlook reflects ICRA's opinion that VGL would continue to witness healthy growth momentum over the near-to-medium term, supported by attractive value positioning of its products and established presence in the US and the UK markets. The cash flow generation of the company is expected to remain strong, which would adequately support the capital structure and debt coverage indicators over the near-to-medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters – The company benefits from the extensive experience of its promoters spanning over two decades in the e-retail industry and its established track record over the years.

End-to-end vertically integrated business model with an established supplier network and high private label sales – VGL has its own manufacturing set-up in Jaipur, Rajasthan, which caters to 90% of its fashion jewellery requirements, while the remaining ~10% of the jewellery retailed as well as other lifestyle products are sourced directly from its established supplier network in over 20 countries, including China, Thailand and Indonesia, among others. This results in a shorter lead time from manufacturing to retailing for the company. Besides high share of private label products (at ~90% of total sales), this has helped VGL generate healthy gross profit margins of over 60% over the last five fiscals.

Extensive coverage to 104 million households; strong brand presence of VGL owned channels in USA & UK as well as attractive value positioning of products – VGL is an online retailer of fashion jewellery and lifestyle accessories on its proprietary TV home shopping channels (two 24x7x365 channels) and e-commerce platforms with live telecasts in the US and the UK. In FY2021, VGL generated 64% of its sales from its TV platforms, with the balance 36% of sales coming from web platforms. VGL's TV home shopping platforms provide direct customer access to ~104 million households on a full-time equivalent basis. The company offers value proposition to its customers by pricing its products at attractive price points, averaging around $27-30 per piece.

Strong financial profile – VGL has reported a healthy revenue growth, with a CAGR of 12% over the last five years. Its revenues increased to Rs. 2.540.1 crore in FY2021, representing a YoY increase of 27.9%, supported by increased demand for e-tailers amid the pandemic as well as its extensive reach. Aided by increased revenues, the OPM also improved to 14.6% in FY2021. Healthy cash flow generation has limited the reliance on external borrowings, which coupled with its healthy net worth, resulted in a comfortable capital structure with a gearing of 0.1 times as on March 31, 2021. The debt coverage indicators too, have remained robust, as seen from an interest cover of 80.0 and net cash accruals vis-a-vis its total debt (NCA/TD) of 187% in FY2021. The same is complemented by its healthy cash and liquid investments of Rs. 468.4 crore as on March 31, 2021, thereby supporting liquidity.

Credit challenges

High competitive intensity – VGL sells its products primarily in the US and the UK regions, where it competes with several large and established players like Qurate Retail (QVC), Shop HQ as well as other e-commerce players like Amazon. It also faces stiff competition from traditional retail formats. Further, the operations of the company remain exposed to local regulations applicable to online retail industry in these operating countries.

High geographic concentration; given the discretionary nature of spending, demand remains susceptible to economic slowdown in these regions – VGL faces high geographical concentration risk as almost all its revenues are derived from its online retail operations in the US and the UK regions. Further, given the discretionary nature of spending on fashion jewellery and lifestyle products, its demand prospects remain susceptible to economic slowdown in these markets. ICRA notes that the company, in a bid to diversify its geographical presence, is planning to launch a new channel in Germany by Q2 FY2022. The company's ability to profitably ramp up operations of the new channel within a reasonable period of time and diversify its operations are key rating monitorables.

High inventory holding period and the resultant carrying risk – The inventory holding period for VGL has remained high at 100-110 days given the high number of SKUs that the company deals in, as well as the lead time of 2-3 weeks required for finished goods to reach the US and the UK from sourcing countries. This has resulted in high working capital intensity of operations for the company. ICRA, however, notes that the company is generally able to liquidate its aged inventory through innovative mechanisms like rising auctions.

Vulnerability of profit margins to risk of bad debts from budget-pay schemes as well as foreign currency fluctuations – Around 36% of the company's sales in FY2021 took place through budget-pay schemes, which exposes VGL's operating profit margins (OPM) to the risk of bad/doubtful debts. The budget-pay scheme allows VGL's customers to pay the dues in two to six instalments, with one getting paid immediately and the remaining amount getting paid in monthly installments as per the number of instalment offered. While this has supported the revenue growth, but in turn led to bad debt of ~Rs. 18.7 crore in FY2020 and Rs. 14.1 crore in FY2021. As per the management, the proportion of bad debt, as a percentage of sales through budget-pay scheme, remains at 1.2-1.5%. Any significant increase in bad debt/doubtful debts write-offs can adversely impact the profit margins and liquidity of the company and remains a key rating sensitivity. The OPM of the company also remains susceptible to foreign exchange fluctuations on account of its foreign operations, though it hedges the major portion of the same through forward contracts.

Liquidity position: Adequate

VGL's liquidity position is **adequate**, supported by unencumbered cash and liquid investments of Rs. 468.4 crore as on March 31, 2021 (of which Rs. 55 crore at the standalone level). The company does not have any long-term borrowings as on March 31, 2021 and hence there are no scheduled debt repayments. The company undertook a capex of ~Rs. 56 crore in FY2021 and the routine capex requirement is expected to be at similar levels going forward. The utilisation of fund based limits have remained low with an average utilisation of 43% between April 2020 and March 2021, with a buffer of Rs. 73.4 crore as on March 31, 2021, which further supports its liquidity.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to demonstrate -

- Healthy improvement in revenues and profitability
- Reduction in geographic concentration risk by way of greater diversification
- Prudent inventory management leads to reduction in inventory levels resulting in lower inventory carrying risk and improvement in working capital intensity

Negative factors – The rating may be downgraded if –

- Any major debt funded capex results in moderation in capital structure or debt coverage indicators
- Any stretch in inventory levels or higher debtor levels from budget pay schemes leads to elevated risk of bad debts and thus weakening of the liquidity position
- Any weakening in the demand conditions in the US and UK markets hampers the growth prospects of the retail industry and in-turn the company

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VGL. As on March 31, 2021, the company had seven subsidiaries and five stepdown subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 1989, VGL is involved in e-retailing of fashion jewellery, fashion accessories and lifestyle products like luxury watches, hair accessories, beauty and home décor products sourced from across Asia. VGL has seven direct subsidiaries and five step-down subsidiaries, through which it operates two 24-hour TV channels (Shop LC in the US and TJC in the UK) and e-commerce websites (shoplc.com and tjc.co.uk) that complement the company's TV-based operations. Around 69% of its consolidated revenues in FY2021 was derived from sale of gemstone-studded jewellery, which is primarily manufactured at VGL's 100% export-oriented unit (EOU) at Sitapura, Jaipur. The balance came from the sale of lifestyle and beauty products. The company generated 64% of sales from TV platforms in FY2021, and the rest 36% from web platforms. The company is promoted by Mr. Sunil Agrawal, who is the Managing Director of the company.

Key financial indicators (Audited, consolidated)

VGL (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	1,986.5	2,540.1
PAT (Rs. crore)	190.3	271.8
OPBDIT/OI (%)	13.2%	14.6%
PAT/OI (%)	9.6%	10.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.4	0.3
Interest Coverage (times)	30.3	80.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company, ICRA research; All ratios as per ICRA calculations

^The financial statements of FY2020 and FY2021 are reported numbers, based on Ind AS 116

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 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					27-May-2021	-	-	-
1	Fund-based Limits	Long-term	25.00	-	[ICRA]A (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund based limits	Simple

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, is available on ICRA's 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	PC/PCFC	-	-	-	25.00	[ICRA]A (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company name	VGL's Ownership	Consolidation Approach
VGL Retail Ventures Limited, Mauritius	100%	Full Consolidation
STS Jewels Inc., USA	100%	Full Consolidation
STS Gems Limited, Hong Kong	100%	Full Consolidation
STS Gems Thai Limited	100%	Full Consolidation
STS Gems Japan Limited	100%	Full Consolidation
Vaibhav Vistar Limited	100%	Full Consolidation
Vaibhav Lifestyle Limited	75%	Full Consolidation
Shop TJC Limited, UK^	-	Full Consolidation
Shop LC Global Inc., US^	-	Full Consolidation
Shop LC GmbH, Germany^	-	Full Consolidation
PT. STS Bali^	-	Full Consolidation
STS (Guangzhou) Trading Limited^	-	Full Consolidation

Source*: Company*

Note*: ICRA has taken a consolidated view of VGL, its subsidiaries and step-down subsidiaries while assigning the rating.*

^ step-down subsidiaries of VGL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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