June 30, 2022

# BIBA Fashion Limited: Ratings reaffirmed; outlook revised to Positive

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term – Fund-based/CC | 174.00 | 145.00 | [ICRA]A (Positive); rating reaffirmed, outlook revised to Positive from Stable |
| Long Term – Fund-based/TL | 25.00 | 6.86 | [ICRA]A (Positive); rating reaffirmed, outlook revised to Positive from Stable |
| Long Term/ Short Term – Unallocated | 1.00 | 48.14 | [ICRA]A(Positive)/[ICRA]A2+; ratings reaffirmed, outlook on the long-term rating revised to Positive from Stable |
| **Total** | **200.00** | **200.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The outlook revision reflects ICRA's expectations of a sustained growth in BFL's revenues and profit margins over the medium term. Besides, limited debt-funded capital expenditure plans and gradual improvement in the working capital cycle are likely to facilitate a further improvement in the company's financial risk profile. Following the pandemic-led decline in revenues and profit margins in FY2021, BFL reported a 21% YoY increase in its revenues to Rs. 559 crore in FY2022E (provisional estimate), along with an improvement in the operating margins to 8.8% in FY2022E (adjusted for IndAS 116 impact) from 2.7% in FY2021. This was fuelled, in part, by a healthy recovery in customer footfalls and revenue per store due to the waning impact of the pandemic, along with the push for store expansion. The company added 38 retail stores in FY2022. With an improvement in domestic demand prospects for the branded apparel segment, BFL is expected to sustain a healthy revenue growth over the medium term.

Further, the ratings continue to draw strength from BFL's healthy operational profile, characterised by the strong presence of its flagship brand, BIBA, in the domestic ethnic wear segment for women, as well as its established pan-India multi-channel distribution network. The ratings also derive comfort from the asset-light business model of the company with the entire manufacturing outsourced to vendors on a job-work basis. The absence of in-house manufacturing operations, along with lower capital expenditure requirement in store expansion (given the use of leased model for self-managed stores) supports scalability in business. The ratings, however, remain constrained by the high brand concentration risk, high working capital intensity of operations due to large inventory holding requirements, which expose the company to substantial inventory write-off risks in the face of rapidly changing fashion trends and consumer preferences. The ratings also factor in the vulnerability of the business to adverse market conditions due to factors including, but not limited to, re-emergence of pandemic-induced business restrictions and intense competition in the highly fragmented apparel retail industry.

While reaffirming the ratings, ICRA has noted the company's plans for an Initial Public Offering (IPO), for which it filed the Draft Red Herring Prospectus (DRHP) with the Securities and Exchange Board of India (SEBI) in April 2022. The offer would comprise a fresh issue of equity shares aggregating Rs. 90 crore, besides the offer for sale by existing shareholders, which would provide an opportunity to the invested private equity investors to partially exit. Besides general corporate purposes, the company proposes to use the fresh proceeds to deleverage its balance sheet. ICRA has noted the above development and will continue to monitor the same and take appropriate rating action, as and when required.

## Key rating drivers and their description

### Credit strengths

**Healthy operational profile with strong brand equity and established distribution network –** Having commenced its operations in FY2003, BAPL designs and retails women's ethnic wear under its flagship brand, BIBA, which has an established presence and recall value in the domestic branded apparel market. In FY2014, the company launched another brand in the value segment, Rangriti, to capture a wider market segment. The company's pan-India multi-channel distribution network comprised 436 exclusive brand outlets (EBOs) and 930 multi-brand outlets (MBOs) as on June 30, 2022. The EBOs allow the company flexibility in promotion and brand building, enabling direct engagement with customers. The MBO channel, on the other hand, helps the company expand its geographical presence with minimal investments. Strong brand equity, together with significant online presence (through channel partners as well as through its own website) helped the company recover at a comfortable pace following the pandemic impact.

**Healthy recovery in performance –**The performance of the Indian apparel retail sector was adversely impacted owing to the pandemic. BFL reported a 25% decline in its revenues in FY2021. The second wave of the pandemic affected the company's performance in Q1 FY2022. However, with improved traction in online sales, together with gradual opening up of stores, sales started improving on a sequential basis subsequently. With improved market conditions and addition of new EBO stores, the company's turnover increased to Rs. 559 crore in FY2022 vis-à-vis Rs. 461 crore in FY2021. Further, the liquidity position of the company also improved in FY2022, supported by an improvement in its working capital cycle, and tie-up of additional bank facilities.

**Healthy capitalisation and coverage metrics –** The company's capital structure remains strong with a gearing of 0.2 times as on March 31, 2022 (E). Owing to the pandemic-led pressure on revenues and profitability, the coverage indicators had weakened in FY2021. Nevertheless, these improved in FY2022 with recovery in revenues and profitability. This is reflected in an interest cover, Debt/ OPBDITA and DSCR of 6.9 times, 2.0 times 3.6 times, respectively in FY2022 (E), compared to 1.2 times, 8.8 times and 0.8 times, respectively in FY2021. With expectations of continued revenue growth and improvement in profitability and plans for IPO (with proceeds proposed to be used partially for deleveraging), the company's credit metrics are expected to improve further and remain healthy over the medium term.

**Asset-light business model supports scalability –** BFL designs, brands and retails apparels, and follows an asset-light business model with the entire manufacturing outsourced to vendors on a job-work basis. The absence of in-house manufacturing operations, along with lower capital expenditure requirement in store expansion (given the use of leased model for self-managed stores), supports scalability in business.

### Credit challenges

**High working capital intensity –** BFL's business is working capital intensive with high inventory holding requirements for its existing as well as new stores. Apart from the increased funding requirements, large inventory translates into higher risk of obsolescence due to fast-changing fashion trends, which in turn translates into higher discounting, impacting the margins. The inventory has remained high in the range of 300-400 days over the last three years. Although ICRA notes that the management's continued focus on clearing older inventories has resulted in an improvement in its inventory ageing profile, the overall inventory turnover period remained high at more than 300 days as on March 31, 2022E. Going forward, the company's ability to efficiently manage its inventory levels, while targeting growth will remain a crucial determinant of its credit profile.

**High brand concentration risk –** While BFL expanded its brand portfolio by launching Rangriti in FY2014, it continues to derive ~85-90% of its revenues from its flagship brand, BIBA, resulting in high brand concentration risk. However, the concentration has reduced in the recent years to 89% in FY2022 from 94% in FY2016, and is expected to decline further with sizeable expansion plans for the Rangriti brand. This is also expected to facilitate a segmental diversification for the company as Rangriti is an economy brand, compared to the mid-to-high value segment targeted by BIBA.

**Exposed to consumer spending trends and intense competition –** BFL's sales, profitability and cash accruals, like any other apparel retailer, are closely linked to macro-economic conditions, consumer confidence and spending patterns, particularly considering the discretionary nature of its products. Besides, its sales remain vulnerable to the consumers' changing tastes and preferences, and competition from branded as well as fragmented boutique segments in the women's ethnic wear market. Given the high proportion of fixed costs and the consistent additional advertisement expenses (to capture consumer mind share as well as wallet share), revenue fluctuations will continue to have a bearing on the profitability.

## Liquidity position: Adequate

BFL's liquidity profile is adequate, with liquid balances (including free cash and bank balances and unutilised lines of credit of more than Rs. 150 crore as on March 31, 2022) and cash flow from operations likely to be sufficient to meet margin requirements for its working capital and capex outlays, as well as scheduled repayment obligations. BFL availed corporate loans and ECLGS loans in the past two years to tide over the challenges posed by the pandemic. Along with equity infusion in FY2021, these loans supported the company's liquidity position and facilitated a decline in BFL's average fund-based limit utilisation to ~34% in FY2022 from ~62% in FY2021 and 95% in FY2020. With the company proposing to use a part of the IPO proceeds to bring down its working capital borrowings, cushion in limits is likely to increase further if the issue is successfully concluded.

### Rating sensitivities

**Positive factors –** ICRA could upgrade BIBA's ratings in case of a sustained improvement in its revenue and profitability with efficient working capital management, while maintaining an adequate liquidity profile. Specific credit metrics that could trigger ratings upgrade include interest cover of more than 6 times (adjusted for IND AS 116 impact) on a sustained basis.

**Negative factors –** Pressure on BIBA's ratings could emerge if there is a sustained decline in revenue and/or profitability, or if a stretch in the working capital cycle materially impacts its liquidity profile. Any large unanticipated debt-funded capex or inorganic growth, affecting its credit metrics, could also result in ratings downgrade. Specific credit metrics that could trigger ratings downgrade include interest cover (adjusted for IndAS 116) below 4.0 times on a sustained basis.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Entities in the Textiles Industry - Apparels |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of BFL, BIBA Apparels Trading LLC, Anjuman Brand Design Private Limited and BIBA Apparels Trading LLC. |

## About the company

BIBA Fashion Limited (erstwhile Biba Apparels Private Limited), incorporated in FY2003 by Mrs. Meena Bindra and her son, Mr. Siddharth Bindra, designs and retails women's ethnic wear, primarily in the domestic market under its flagship brand, BIBA. In FY2014, the company introduced another brand in the economy segment, Rangriti. As on March 31, 2022, BFL's products were retailed through 436 EBOs and 930 large-format stores/ MBOs such as Shoppers Stop, Lifestyle, Central, and Pantaloons.

## Key financial indicators (audited/ provisional)

| | Adjusted^ | | | Reported | | |
|---|---|---|---|---|---|---|
| **Standalone Financials[1]** | **FY2020** | **FY2021** | **FY2022*** | **FY2020** | **FY2021** | **FY2022*** |
| Operating Income (Rs. crore) | 615.8 | 460.9 | 559.1 | 757.2 | 525.8 | 630.7 |
| PAT (Rs. crore) | 10.2 | -10.8 | 12.2 | 2.6 | -13.4 | 14.9 |
| OPBDIT/OI (%) | 9.5% | 2.7% | 8.8% | 18.1% | 11.9% | 17.5% |
| PAT/OI (%) | 1.7% | -2.3% | 2.2% | 0.3% | -2.5% | 2.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.8 | 0.5 | 0.3 | 2.2 | 1.6 | 1.6 |
| Total Debt/OPBDIT (times) | 2.5 | 8.8 | 2.0 | 3.9 | 7.2 | 4.1 |
| Interest Coverage (times) | 5.0 | 1.2 | 6.9 | 3.1 | 1.5 | 2.6 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;*
**Based on provisional estimates; ^Adjusted for IND AS 116 impact by ICRA*

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

## Any other information: None

# Rating history for past three years

| | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2022 (Rs. crore) | Date & Rating | Date & Rating in FY2022 | Date & Rating in FY2021 | | Date & Rating in FY2019 |
| | | | | | Jun 30, 2022 | - | Mar 25, 2021 | Apr 7, 2020 | - |
| 1 | Long-term fund-based - Working Capital limits | LT | 145.00 | -- | [ICRA]A (Positive) | - | [ICRA]A (Stable) | [ICRA]A (Negative) | - |
| 2 | Long-term fund-based – Term Loans | LT | 6.86 | 6.86 | [ICRA]A (Positive) | - | [ICRA]A (Stable) | -- | - |
| 3 | Unallocated limits | LT/ST | 48.14 | -- | [ICRA]A (Positive)/ [ICRA]A2+ | - | [ICRA]A (Stable)/ [ICRA]A2+ | [ICRA]A (Negative)/ [ICRA]A2+ | - |

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Working capital limits | Simple |
| Term loan | Simple |
| Unallocated | Not Applicable |

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

[1] Consolidated financials were not available at the time of reviewing of the ratings

## Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Working capital limits | - | - | | 145.00 | [ICRA]A (Positive) |
| NA | Term loans | FY201 | - | FY2026 | 6.86 | [ICRA]A (Positive) |
| NA | Short-term/long-term unallocated limits | - | - | - | 48.14 | [ICRA]A (Positive)/ [ICRA]A2+ |

***Source:*** *BFL*

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

| Company Name | BFL Ownership | Consolidation Approach |
|---|---|---|
| BIBA Apparels Trading LLC | 100.00% | Full Consolidation |
| IMA Clothing Private Limited | 51.00% | Full Consolidation |
| Anjuman Brand Design Private Limited | 36.82% | Equity method of Consolidation |

***Source:*** *Company*

## ANALYST CONTACTS


**Jayanta Roy**
+91 33 7150 1100
jayanta@icraindia.com

**Kaushik Das**
+91 33 7150 1100
kaushikd@icraindia.com

**Nidhi Marwaha**
+91 124 4545 337
nidhim@icraindia.com

**Preeti Rana**
+91 124 4545 887
preeti.rana@icraindia.com


## RELATIONSHIP CONTACT


**L Shivakumar**
+91 -22-6169300
shivakumar@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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

## ICRA Limited


### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45


### Branches