Sabyasachi Couture
February 19, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long Term/Short Term Bank Facilities	60.00	**CARE A-; Stable/CARE A2+ [Single A Minus; Outlook: Stable/ A Two Plus]**	**Reaffirmed**
Long-term Bank Facilities	4.00	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Assigned**
Total	**64.00 (Rs. Sixty Four crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Sabyasachi Couture (SC) continue to derive strength from established brand name in the luxury couture segment, diversification of product portfolio with launch of eponymous jewelry line, national and International collaborations leading to brand building and popularity, satisfactory financial performance and comfortable debt protection metrics in FY19 (refers to the period from April 01 to March 31) and 8MFY20 and strong liquidity position. The ratings are, however, constrained by its constitution as a partnership concern indicating risk of capital withdrawal, inventory risk associated with the fashion industry, working capital intensive nature of operations and competition from other players in the industry and risk associated with plagiarism.

Key Rating sensitivities

Positive Factors

- Sustained improvement in scale of operations beyond Rs.400 crore backed by operational performance.
- Sustainable improvement in PBILDT margin beyond 12.50%.
- Improvement in operating cycle below 50 days due to better inventory management

Negative Factors

- Decrease in PBILDT margin below 6%.
- Increase in operating cycle beyond 90 days.
- Deterioration in overall gearing ratio beyond 0.7x .

Detailed description of the key rating drivers

Key Rating Strengths

Established brand name in the luxury couture segment

Sabyasachi started his eponymous label in the year 1999. He is an established fashion designer in India with a product portfolio of bridal couture, apparel for men, accessories, jewelry for women and men. He has a strong foothold in the Indian film and television industry. Sabyasachi first forayed into films which earned him critical acclaim along with the National Award in 2005 for the best costume designer for a feature film. Since then, he has designed costumes for various Bollywood movies. He is a member of the National Museum of Indian Cinema. His designs have been donned by various celebrities across the globe. He has been a part of television through his show Band Baaja Bride airing on NDTV Goodtimes, a lifestyle channel. He is a member of Fashion design Council of India.

Diversification of product portfolio with launch of jewelry line

Sabyasachi had introduced his jewelry collection- Sabyasachi Jewelry- a collection of fine (diamonds and colored gemstones) and heritage (Jadau and Gold) jewelry for women and also a collection of Men's Jewerllery in 2017. The jewelry range is designed by Sabyasachi and is manufactured through job workers by way of exclusive contracts. Other jewelry collaborations include 'Zanyah' an exclusive line of diamond jewelry with Forevermark.

National and global collaborations and exposures leading to brand building and popularity

Sabyasachi has also entered into various national and international collaborations leading to brand building and product diversification. His collaborations are with French shoe designer Christian Louboutin, Pottery Barn, Asian Paints, L'Oreal Paris and recently with H&M. Sabyasachi has 6 international mullti-brand franchisees, 4 in USA and 2 in UK.

Satisfactory financial performance in FY19 and 8MFY20

For SC, the PBILDT margin improved to 9.14% in FY19 as against 7.49% in FY18. This was due to increased sale of jewelry fetching higher margin. PAT margin remained stable with slight improvement due to higher capital charge and

[2]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

extraordinary expense of Rs.2.4 crore pertaining to actuarial valuation of employee benefit. GCA was comfortable at Rs.11.78 crore vis-à-vis debt repayment obligation of Rs.0.46 crore in FY19.

For the period 8MFY20, PBILDT margin stood at 16.15% and PAT margin at 5.28% with cash profits of Rs.10.52 crore.

The financial performance of SC (Combined) is in line with the financial performance of SC (standalone) and the combined PBILDT margin improved to 9.58% in FY19 as against 7.67% in FY18.

Comfortable debt protection metrics

Total debt level of SC has reduced from Rs.26.47 crore as on March 31, 2018 to Rs.19.37 crore as on March 31, 2019. This is due to decreased utilization of cash credit and repayment of vehicle loan and pre shipment credit. Also, the tangible net worth of SC has increased from Rs.58.83 crore as on March 31, 2018 to Rs.77.71 crore as on March 31, 2019 due to rising profit levels of SC and ploughing back of partners' remuneration. Both these factors, cumulatively has a favorable impact on the overall gearing ratio which has improved from 0.45x as on March 31, 2018 to 0.25x as on March 31, 2019.

Key Rating Weaknesses

Constitution as a partnership concern with risk of capital withdrawal

SC is constituted as a partnership firm. The capital in case of such business models are subject to the risk of being withdrawn from the business at the time of personal contingency. Further, a partnership is also exposed to the risk of business being dissolved in case of death/retirement/insolvency of the partners. However, the partners are in the process of merging the operations of SC and SCPL wherein SCPL would acquire SC under reverse merger, mitigating the risks attached with partnership concerns.

Increasing but modest scale of operations

The operating revenue grew by ~21% due to growth in sale of jewelry. Although increasing, the scale of operations continues to be moderate. The sale from jewelry segment of SC (combined) has registered a CAGR of 53.04% over FY17-FY19 with y-o-y growth of 118.50% to Rs.78.53 crore in FY19 (FY18: Rs.35.94 crore). The sale from apparels segment of SC (combined) has registered a muted CAGR of 3.90% over FY17-FY19 with y-o-y growth of 1.29% to Rs.172.94 crore in FY19 (FY18: Rs.170.74 crore).

Inventory risk associated with the fashion industry

The fashion industry depends on the latest trends which are ever-changing. There arises a need to refresh products in line with shifting consumer behavior. This leads to fashion items having a small shelf life before consumers move to new colors, design or textures. This may result in inventory of raw materials and finished goods becoming obsolete. This risk is partially mitigated as SC majorly caters to the couture category which includes made to order products. In addition, the group is installing ERP software to better manage its inventory. The inventory risk is accentuated with presence in jewelry segment. Out of the total inventory around 80% comprise of jewelry (Rs.57.11 crore as on March 31, 2019).

Working capital intensive nature of operations

The group's substantial sale is through its flagship stores in India. As a part of the fashion industry, the group has to maintain a high inventory of raw materials (fabrics and accessories), work in progress (as products take more than one month to be manufactured) and finished goods to cater to various consumer needs. The inventory days improved from 124 days in FY18 to 112 days in FY19. However, on absolute level, stock of jewelry division witnessed substantial increase.

Competition from other players in the industry and risk associated with plagiarism:

The fashion industry comprises a large number of players as it has low entry barriers. There exists a threat of shifting consumer preference amongst the designers in the luxury segment offering products in the same category – namely bridal couture. In addition, plagiarism of designs is a serious concern. The group has a workforce of 1889 (PY: 1863) workers. Although the group is careful in terms of sharing only a part of the design with the workers, the threat from plagiarism looms large. As a counter, the group registers its designs under the Intellectual Property Rights.

Prospects

Given the strong brand presence and various steps to expand internationally, the firm is well placed to increase its scale of operations with comfortable operating margin. The long-term prospects further depend on completion of merger of SC with SCPL, while maintaining the capital structure.

Liquidity: Strong

Liquidity is marked by strong accruals (GCA of Rs.12.47 crore in FY19) against below Rs.1 crore of term loan outstanding as on March 31, 2019 and liquid investments (including cash and bank balances) to the tune of Rs.41.35 crore as on March 31, 2019. Current ratio is also satisfactory at 1.43x as on March 31, 2019. Its unutilized bank lines (average of 80%) are more than adequate to meet its working capital needs over the next one year.

Analytical approach: Combined Approach.

For the purpose of arriving at the ratings, CARE has combined the business and financial risk profiles of partnership firm-SC and company-Sabyasachi Couture Private Limited (SCPL). Both SC and SCPL are under the same management, have operational linkages and exhibit cash flow fungibility.

Applicable Criteria
[Criteria on assigning outlook and credit watch to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE's Policy on Default Recognition]
[Rating Methodology: Consolidation and factoring linkages in Ratings]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Organised Retail Companies]

About the Firm
SC, established in 2002 is a partnership firm between the two brothers Mr. Sabyasachi Mukherjee, a renowned Indian fashion designer and his father Mr Sukumar Mukherjee. The firm is engaged in designing and manufacture of bridal couture with apparel and accessories for both men and women. In July 2017, SC ventured into launched jewelry line which includes fine jewelry (diamond and colored gem stones), heritage jewelry (jadau and gold) and Men's Jewelry. All products are sold under the label of Sabyasachi.
Another entity belonging to the partners is SCPL. SCPL is a Special Purpose Vehicle for sales of SC through Mumbai's store wherein SCPL earns commission. The group has four flagship stores in India- in Kolkata, Delhi, Hyderabad (on franchisee model) and Mumbai. It also has sales through 13 domestic and 6 international multi brand franchisees. The group is also exploring the untapped potential of digital marketing through popular social media account Instagram wherein it has 4.3 million (PY: 3.4 mn) followers.

Brief Financials (Rs. crore)- Standalone	FY18 (A)	FY19 (A)
Total operating income	208.43	253.94
PBILDT	15.61	23.21
PAT	7.46	9.11
Overall gearing (times)	0.45	0.25
Interest coverage (times)	8.77	8.46

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	60.00	CARE A-; Stable/ CARE A2+
Fund based- LT- Term Loan	-	-	Dec 2024	4.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings				Rating history		
		Type	Amount Outstanding (Rs. crore)	Ratings	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ ST	60.00	CARE A-; Stable/ CARE A2+	CARE A-; Stable/ CARE A2+ (03-Apr-19)	CARE A-; Stable/ CARE A2+ (02-Apr-18)	-	-
2.	Fund based- LT-Term Loan	LT	4.00	CARE A-; Stable	-	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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