

Spykar Lifestyles Private Limited

January 03, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	100.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Total Bank Facilities	100.00 (₹ One Hundred Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The upgradation in ratings assigned to the bank facilities of Spykar Lifestyles Private Limited (SLPL) factors in the improvement in business performance during FY 22 and continuance of the same during 7M FY 23. The ratings continues to derive strength from experience of the management in the lifestyle apparel industry along with the strong brand name of 'Spykar' in domestic market, parentage of Metdist group and financial support provided by them after becoming the majority shareholder, SLPL's wide spread distribution network and asset light business model and adequate liquidity position.

The ratings, however, continue to be constrained by its highly competitive nature of the industry along with increase in competition in branded apparel segment and average financial risk profile of the company marked by leveraged capital structure and elongated working capital cycle.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in overall gearing (including acceptances) below 1.5x on sustained basis
- Improvement in PBILDT margins to 10.00% on sustained basis
- Revenue of more than Rs 600 Crores on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing (including acceptances) beyond 3.00x from FY22
- PBILDT margin of less than 7% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Growth in revenue, with improvement in profitability margins: SLPL registered a growth of ~77% in TOI from Rs.220.43 crore in FY21 to Rs. 389.44 crore in FY22, on account of pent up in demand post COVID pandemic. Also the company had reported substantial improvement in its PBILDT and PAT of Rs. 35.15 crore and Rs. 19.86 crore in FY22 as compared to that of Rs. 4.17 crore and (-) Rs. 17.83 crore respectively in FY21 due to its increased scale of operations at pre covid levels.

Strong promoter group and exhibited financial support provided by the promoter: Metdist group holds 100% stake in Spykar Lifestyles Private Limited (SLPL). The group has supported the operations of the company by providing need based financial support to Spykar. Metdist Industries Holdings Limited, Metmin Investment Holdings Limited & Metmin Investment & trading Private Limited are the shareholders of SLPL. The Metdist Group is promoted by the Bagri family based in Malaysia. Founded by Lord Bagri, the group is now managed by Mr. Apurv Bagri, President & CEO Group. The Group is primarily into manufacturing of electrical conductivity grade copper wires which are used in rods, insulated and non-insulated copper strips which is used in refrigeration and air-conditioning industry in Malaysia and worldwide; the group also has a presence in fabrication, apparel, real estate and insurance.

Management's experience in the retail lifestyle industry: Mr. Sanjay Vakharia has been associated with Spykar since its inception. He is responsible for the overall Marketing & Brand Communication strategies of the company. Mr. Vakharia has followed a distribution strategy of retailing through Multi Brand Outlet across India, and through Large Format Stores like Shoppers' Stop, Lifestyle, Pantaloons etc.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established brand name 'Spykar' in denims and vast reach in Indian market: The brand 'Spykar' is targeted towards the youth in the premium and medium segment mainly within the men's casual wear category. The company posts 40-50% of sales from denims. SLPL has an in-house design and product development team which makes samples and provides the same to vendors for manufacturing. As on October 31, 2022 the company has 1690 outlets/point of sale vis-a-vis 1644 outlets/ point of sale (POS) across India as on December 31, 2021 and around 65% are Exclusive/ Multi brand outlets (EBOs/MBOs).

Asset light business model providing flexibility: The company achieves most of its revenue through EBO (Exclusive-Brand Outlets), MBO (Multi-Brand Outlets) and LFS (Large Format Stores) where EBOs are franchisee based and MBO and LFS are owned by the large retailers viz. Shopper Stop, Central, Pantaloons. This provides flexibility to SLPL for not investing in fixed assets. As the capital expenditure requirement to scale up the operations is minimal, this enables the company to maintain growth while managing working capital requirements. Besides, the security deposits collected from the franchisee, provides funding source for 10-15% of store inventory. During 7MFY23, SLPL has increased its LFS to 535 from 515 in FY22 and also its total Sales revenue as well increased to Rs.367.42 crores as compared to that of Rs. 272.12 crore in 9MFY22.

Arrangement with suppliers: Spykar outsources the manufacturing of the garments to known players such as Raymond UCO Denim Pvt Ltd Integra Apparels and Textiles Ltd (Ashok Piramal group), etc. who also manufacture for larger apparel players. Spykar is involved in the fabric selection at negotiated rates through the appointed vendors and this also enables the company to have a control over the quality of fabric. The company manages to avail credit of 30-90 days from suppliers which adds to the working capital flexibility of Spykar. The Sales arrangement with EBO/LFS are on return basis with past history of return around 8-12%.

Key Rating Weaknesses

Working capital intensive nature of operations and leveraged capital structure:

The company's overall gearing has improved to 1.88x as on March 31, 2022 as compared to 3.65x as on March 31, 2021, mainly on account of reduced CC utilization level in FY21 and due to improvement in its scale of operations post COVID resumption of business at pre COVID level. Owing to the retail focus and franchise-based model, In FY22 around 85% of its revenues is generated by its exclusive stores, large format retail stores and multi brand outlets. The company has to provide 6 months credit period to the large retailers resulting into higher collection period. Working capital cycle improved to 158 days in FY22 as against 331 days in FY21 on account of improvement in its Collection period to 180 days in FY22 as compared to that of 349 days in FY21.

Intense Competition: The Apparel Industry is fragmented and highly competitive. There are a number of major players, many niche stores and private companies that cater to specific demographics. Also, general merchandisers and foreign companies bring more competition to the sector. Having the right product is also essential; fashion trends change frequently, and companies need to adapt to varying consumer tastes quickly.

Liquidity: Adequate

The liquidity position of SLPL is marked by comfortable level of cash accruals of ~ Rs. 30 crore as against debt repayment obligations of Rs. 4.35 crore in FY23. Further its average working capital limits utilization was around 24% during the last 12 months ended as on November 30, 2022.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Retail](#)

About the Company

Incorporated in 1992, Spykar Lifestyle Private Ltd. (SLPL) is engaged in retailing of affordable to premium denim wear in domestic market under the brand name of 'Spykar'. The company provides complete casual range which includes jeans, fashionable denims, caps, cargo's, shirts and t-shirts. SLPL does not undertake manufacturing activity of its own, but primary designing and specific is done at company's end. The company has specification for each and every product which is provided to the job worker for procurement and production of product. The company supervises the manufacturing activity carried out by outsourcing vendors and itself carries on the main functions of washing and dyeing at its own unit. SLPL has setup its washing unit at Kopar Kharine, Navi Mumbai. As on October 31, 2022, the company has 220 exclusive business outlets operating in various cities across India mainly in Metro and Tier 1, 2 & 3 cities.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	7MFY23 (UA)
Total operating income	220.43	389.44	367.43
PBILDT	4.27	35.15	34.39
PAT	-17.83	19.86	17.64
Overall gearing (times)	3.65	1.88	N/A
Interest coverage (times)	0.18	2.06	3.49

A: Audited; UA: Unaudited; N/A: Not Available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	100.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (09-Mar-22)	1)CARE BBB-; Stable (01-Mar-21)	1)CARE BBB; Stable (09-Mar-20)
2	Fund-based - ST-Cash Credit	ST	-	-	-	-	-	1)Withdrawn (19-Mar-20) 2)CARE A1+ (CE) (19-Mar-20)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)CARE A1+ (CE) (19-Mar-20) 2)Withdrawn (19-Mar-20)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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