

BMI Wholesale Trading Private Limited

January 23, 2020

Ratings

Facilities	Amount(Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	18.31	CARE B+; Stable (Single B Plus, Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	4.00	CARE A4 (A Four)	Reaffirmed
Total	22.31 [Rupees twenty two crore and thirty one lakh only]		

Details of instruments/facilities in Annexure I

Detailed Rationale

The ratings assigned to the bank facilities of BMI Wholesale Trading Private Limited (BMI) continues to be constrained by modest scale of operation coupled with relatively small net worth base as on March 31, 2019, cash losses incurred in FY19, highly working capital intensive nature of operations, highly leveraged capital structure and weak debt coverage indicators. The ratings further continue to be constrained by increased competition from the domestic and global brands. The aforesaid constraints, however, continue to be partially offset by the strength derived from established track record of the promoter in the marketing of premium brands in apparels though the licensing arrangement and established brand presence with wide geographical reach.

Rating sensitivities

Positive factors

- **Growth in total operating income:** Growth in the total operating income of the company to a level of around Rs. 80-100 crore on sustained basis
- **Improvement in profit margins:** Improvement in operating margin to remain in range of 17-20% and net profit margin to remain in range of 3-6%
- **Improvement in capital structure and debt coverage indicators:** Ability of the company to improve capital structure below unity and interest ratio in range of 3-5x times and total debt /GCA in range of 3-5x times.

Negative factors

Elongation in inventory holding period: Elongation in inventory period to 60-90 days

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operation coupled with small net worth base: BMI's scale of operation grew significantly by 56.51% in FY19 to Rs. 57.80 crore from Rs. 36.93 crore in FY18 on account of increased revenue earned from e-commerce sales due to increased demand coupled with in number of distributors and MBO's added in FY19, from 8 distributors and 60 multi brand outlets (MBO's) in FY18 to 14 distributors & 84 multi brand outlets in FY19.

Further, for 9MFY20 the company have earned the sales of Rs. 27.00 crore (vis-à-vis Rs. 36.63 crore in 9MFY19) and have an order book of Rs.30.00 crore which will be executed by March, 2020. However despite the growth in scale of operation it continues to remain modest. Further net worth base of the company continued to remain small at Rs. 0.37 crore as on March 31, 2019.

Achieved operating profit however continued to incur net loss during FY19: Company achieved operating profit of Rs. 8.67 crore in FY19 vis-à-vis operating loss of Rs. 0.80 crore in FY18 due to change in franchisee business model and increased proportion of revenue being generated from wholesale and ecommerce business segment wherein realization are higher. However company continued to incur net losses but the proportion has reduced to Rs. 1.38 crore in FY19 vis-à-vis Rs. 6.94 crore in FY18 on account of improvement in operating profitability and reduction in depreciation expenses.

Further on excluding non-operating expenses (towards prior prepaid expenses), company achieved net profit of Rs.0.29 crore in FY19. However, it continues to post cash loss.

Leveraged capital structure and weak debt coverage indicators: The capital structure continued to remain leveraged however improved with increase in net worth base on account of infusion of equity shares by promoters at premium in FY19 (company has infused 9,59,200 equity shares of Rs. 10 each with premium of Rs. 37.10 each which is amounting to Rs. 4.52

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

crore) coupled with reduction in debt level due to redemption of optionally convertible preference shares (OCPS) of Rs. 3.52 crore in FY19.

Due to negative cash accruals total debt to gross cash accruals stood weak and interest coverage ratio remained low at 1.06x in FY19 on account of increase in interest cost due to interest on OCPS in FY19.

Highly working capital intensive nature of operation: Operating cycle of BMI improved to 83 days in FY19 (vis-à-vis 206 days in FY18) on account of improved collection period. Though the collection period is improved however it continued to remain elongated to 230 days in FY19 vis-à-vis 335 days in FY18. In absolute term, outstanding debtors have deteriorated from Rs. 39.07 crore as on March 31, 2019 to Rs.34.88 crore as on March 31, 2018 due to increase in seasonal purchase by distributors from company during end of the FY19.

However comfort can be drawn from the fact debtors outstanding as on March 31, 2019, have been fully recovered as on date. Company in its current business model offers credit period of 60-70 days to its wholesale segment and 90 days to its ecommerce segment. Further inventory continued to remain at moderate level at 45 days in FY19 (vis-à-vis 75 days in FY18) as company has to keep of inventory readily available in its warehouse to meet the timely needs mainly for ecommerce segment.

Further, the company avails credit period of around 90 days from the suppliers. All these taken together leads to operating cycle of 83 days and the company has been utilizing its working capital limits on an average of 100% for the twelve months ending December, 2019.

Weak Liquidity position: Liquidity position continued to remain weak with weak current ratio of 1.01x and quick ratio of 0.93x as on March 31, 2019 vis-à-vis current ratio of 1.00x and quick ratio of 0.91x as on March 31, 2018. Further cash and bank balance of the company also remained low at 0.15 crore as on March 31, 2019 vis-à-vis Rs. 0.14 crore as on March 31, 2018. However the cash flow from operating activity was positive at Rs 7.12 crore in FY19.

Key Rating Strengths

Established track record of the promoter in the marketing of premium brands in apparels though the licensing arrangement: Company is promoted by Prestige Brands Limited and has a legacy of more than 45 years in the development and marketing of designer lifestyle products. The operations of BMI are managed by Mr. Vijay Murjani having an experience of more than a decade in the marketing, merchandising and retail development related to premium brands. Further the promoters are resourceful and have been supporting the operations by regular infusion of funds.

Established brand presence with wide geographical reach: Company has added 6 distributors who distribute to 14 multi brand outlets in India out of its total 14 distributors selling to 84 multi brand outlets and added one e-commerce partner "Ajo" and one shop in shop partner i.e. "Shoppers Stop" in addition to Myntra, Amazon and Flipkart. However as per the old business model company still has 15 exclusive "French Connection" stores. Furthermore, the company has increased its proportion of sales through distribution business as well.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to credit ratings](#)

[CARE's policy on Default Recognition](#)

[Rating Methodology-Retail](#)

[Financial Ratios \(Non-Financial Sector\)](#)

[Criteria for Short Term Instruments](#)

About the Company

Incorporated in 2006, BMI Wholesale Trading Private Limited [BMI, formerly known as MK Retail Private Limited] is promoted by Prestige Brands Limited (a company wholly owned by New York based Murjani Group). BMI is engaged in wholesale trading and marketing of licensed products such as apparels and innerwear under the brand 'French Connection' in the Indian Territory wherein BMI has the exclusive long term rights for "French Connection" [with contracts being renewed for 10 years (renewed until 31 Dec 2027)]. The company provides 5% of the net sales as royalty to French Connection Group Plc. (FCUK). Furthermore, the merchandise is sourced majorly from the domestic markets i.e. 97% and the balance from United Kingdom.

BMI's has changed the business model through partial discontinuation of retail segment since FY17 and engaged in wholesale distribution of products through its 14 distributors who distribute to more than 84 multi brand outlets in India, e-commerce giants namely Myntra, Flipkart, Amazon and Ajo and one shop in shop partner i.e. "Shoppers Stop". However as per the old business Model Company still has 15 exclusive "French Connection" stores.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	36.93	57.80
PBILDT	-0.80	8.67
PAT	-6.94	-1.38
Overall gearing (times)	Neg.	61.93
Interest coverage (times)	Neg.	1.06

A: Audited, Neg.: Negative

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	16.81	CARE B+; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	4.00	CARE A4
Fund-based - LT-Cash Credit	-	-	-	1.50	CARE B+; 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)	Rating	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.	Fund-based - LT-Cash Credit	LT	16.81	CARE B+; Stable	-	1)CARE B+; Stable (30-Jan-19)	1)CARE B+; Stable (16-Mar-18) 2)CARE BB+; Stable (12-Apr-17)	1)CARE BB+ (15-Apr-16)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	4.00	CARE A4	-	1)CARE A4 (30-Jan-19)	1)CARE A4 (16-Mar-18) 2)CARE A4+ (12-Apr-17)	1)CARE A4+ (15-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	1.50	CARE B+; Stable	-	1)CARE B+; Stable (30-Jan-19)	-	-

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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