January 20, 2021

Go Fashion (India) Private Limited: [ICRA]A-(Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based facility	30.0	[ICRA]A-(Stable); assigned
Short-term - Non-fund based facility	35.0	[ICRA]A2+; assigned
Long-term/short-term – Interchangeable facility	(31.0)	[ICRA]A-(Stable)/[ICRA]A2+; assigned
Total	**65.0**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings reflect the healthy operational profile of Go Fashion (India) Private Limited (GFIPL), characterised by the strong presence of its flagship brand, Go Colors, in the domestic women's bottom-wear segment, as well as its established pan-India multi-channel distribution network. Driven by sustained store additions and increasing brand presence, the company's revenue witnessed a compounded annual growth rate (CAGR) of 57% during the last five years. Further, ICRA notes that its asset light manufacturing model and sales focus through company-managed retail outlets supports scalability and return metrics. The ratings also factor in GFIPL's comfortable financial profile characterised by healthy profitability, strong liquidity profile and capital structure with minimal dependence on external fund-based borrowing. ICRA notes that the company's capex and working capital requirement for revenue growth was supported by fund infusion from external investors.

The ratings, however, are constrained by the company's moderate scale of operations and expected moderation in revenue and profitability in FY2021 on account of the Covid-19 pandemic-related nationwide lockdown and demand slowdown in the apparel retail sector. While a considerable number of the stores have resumed operations in the recent months, the sales volumes remained modest due to its significant presence primarily in tier-1 cities, where the pandemic has been rampant. Going forward, the strength of the recovery in performance will highly depend on the duration and extent of the pandemic as well as related changes in consumer behaviour. The ratings are also constrained by its business model with high segmental concentration amid the fragmented and intensely competitive domestic apparel market. ICRA also notes the sizeable working capital requirements in retail business owing to high inventory holding.

The Stable outlook on the ratings reflects ICRA's opinion that GFIPL will continue to benefit from its established brands, healthy financial risk profile and extensive experience of promoters in the garments industry.

Key rating drivers and their description

Credit strengths

Healthy operational profile with established distribution channel – Incorporated in FY2010, GFIPL designs and retails women's bottom-wear products under its brand Go Colors, which has an established presence and recall value in the domestic branded apparel market. The company has witnessed significant growth supported by its growing retail network, as reflected by a CAGR of 57% in its sales turnover during FY2016-FY2020. Its pan-India multi-channel distribution network comprised 453 exclusive brand outlets (EBOs), as well as 1,371 large format store (LFS) outlets as on

October 2020. GFIPL derives a major portion of its revenue (71% in FY2020) from their own stores, which supports its profitability.

Strong financial risk profile characterised by low gearing and healthy debt coverage indicators – The company has funded its extensive capex over the years primarily through equity investments (from PE investors, who had invested around Rs. 100 crore in the last round of funding in FY2018) and through internal accruals without availing any external term loans (since FY2016). Despite its high working capital intensity, GFIPL relies primarily on internal accruals for funding its working capital requirements with minimal dependence on external borrowings. The same has resulted in a robust capital structure with adjusted gearing and adjusted TOL/TNW at 0.01 times and 0.1 times as on March 31, 2020 and comfortable debt protection metrics with adjusted interest coverage and adjusted Debt/OPBDITA at 54.2 times and 0.03 times in FY2020.

Asset-light manufacturing model supports scalability and return metrics – GFIPL 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 the lower capital expenditure requirement for store expansion (given the use of the leased model for self-managed stores) supported its significant expansion over the past five years. With increase in scale of operations, the company's adjusted operating margins improved YoY to 22.3% in FY2020 from 13.7% in FY2017 due to better absorption of overhead cost. Improvement in profitability combined with low capex requirement resulted in a healthy adjusted return on capital employed (RoCE), which improved to 31.7% in FY2020 from 18.6% in FY2017.

Credit challenges

Moderate scale of operations and intense competition – The company's scale of operations remained moderate with entire revenues derived from a single brand and single clothing segment (women's bottom-wear segment). Its sales remain vulnerable to the consumers' changing tastes and preferences, and the competition from branded as well as unorganised players in the highly fragmented women's apparel market. Further, GFIPL has a high proportion of fixed costs with rentals accounting for 17% and employee costs accounting for 20% of the total cost of goods sold in FY2020. Given the high proportion of fixed costs, any decline in revenue will have an adverse bearing on its profitability.

Short-term pressure on revenue and profitability – GFIPL's revenue has dipped in 8M FY2021 to Rs. 139 crore due to closure of its stores on account of the nationwide lockdown. However, its sales have improved over the recent past (since October 2020) with re-opening of stores and revival in demand during the festive season. Given the expected reduction in scale by around ~40% in FY2021, its profitability will be adversely impacted as fixed overhead costs remain high relative to sales. Nonetheless, ICRA notes that the company has plans to add ~120 new stores in FY2022, which is likely to support its revenue growth going forward, however, its profitability will mainly depend on improvement in same store revenue growth.

High working capital intensity – The apparel retail business is working capital-intensive in nature with high inventory holding requirements in all the stores across a wide product range. The company's working capital intensity averaged at ~39% during the past four years.

Liquidity position: Strong

The company does not have any external term loans. It has healthy cash and liquid investment of ~Rs. 50.4 crore as November 30, 2020. It also has comfortable buffer in WC capital limits (Rs. 20-crore CC account) with average monthly utilisation at 10% for the 12-month period that ended in November 2020. It has another sanctioned CC account for Rs. 30 crore, which will further improve its liquidity position.

Rating sensitivities

Positive triggers – The company's ratings could be upgraded if there is a revival in the industry demand scenario resulting in a sustainable growth of revenue and profitability, together with efficient management of working capital.

Negative triggers – A continued pressure on revenue growth and profitability (especially on account of any prolonged impact of the coronavirus spread) may result in a downward pressure on the ratings. The ratings may also be downgraded if there is weakening of liquidity/capital structure or debt protection metrics on account of any large capex/inorganic expansions. Specific credit metrics that could lead to a downgrade include adjusted interest coverage* less than 4.0 times on a sustained basis.
**(adjusted interest coverage where both OPBDITA and Interest are calculated without accounting for INDAS 116 operating lease adjustments)*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textiles Industry - Apparels
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Incorporated in 2010 by Mr Vinod Kumar Saraogi and Mr Prakash Kumar Saraogi, GFIPL is involved in designing, manufacturing and retailing of women's bottom-wear products under their own brand named Go Colors. The products are sold primarily in the domestic market through extensive retail channel including ~453 own stores and the remaining primarily from sales through large format stores. The company has had two rounds of private equity (PE) investment through 0.01% compulsory convertible cumulative preference share with the PE investors – Sequoia Capital India and ICICI Ventures, together having 42.5% of the fully diluted holdings in the company.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)
Operating Income (Rs. crore)	285.2	393.6
PAT (Rs. crore)	36.5	52.6
OPBDIT/OI (%)	20.0%	33.1%
PAT/OI (%)	12.8%	13.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.8
Total Debt/OPBDIT (times)	0.1	1.6
Interest Coverage (times)	57.0	7.2

Key financial indicators (adjusted*)

	FY2019 (Audited)	FY2020 (Audited)
Operating Income (Rs. crore)	285.2	393.6
PAT (Rs. crore)	36.5	61.8
OPBDIT/OI (%)	20.0%	22.3%
PAT/OI (%)	12.8%	15.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.1	0.0
Interest Coverage (times)	57.0	54.2

**ICRA has adjusted FY2020 financials without accounting for the impact of operating leases under INDS AS 116*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding#	Rating	FY2020	FY2019	FY2018
					20-Jan-2021	-	-	-
1	Cash Credit	Long Term	30.0	-	[ICRA]A-(Stable)	-	-	-
2	Letter of Credit	Short Term	35.0	0.0	[ICRA]A2+	-	-	-
3	Interchangeable	Long Term/ Short Term	(31.0)*	0.9	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-

*Amount in Rs. crore; *sub-limits of cash credit and letter of credit facility; #outstanding as on November 30, 2020*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	30.0	[ICRA]A-(Stable)
NA	Letter of Credit	NA	NA	NA	35.0	[ICRA]A2+
NA	Interchangeable	NA	NA	NA	(31.0)*	[ICRA]A-(Stable)/ [ICRA]A2+

**Rs. 10-crore sub-limits to cash credit and Rs. 21 crore sub-limit to letter of credit facility*
Source: GFIPL

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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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.

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