September 30, 2021

Indian Terrain Fashions Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based Working Capital Facilities	37.50	37.50	[ICRA]BBB+(Negative); Reaffirmed
Short-term non-fund-based Working Capital Facilities	8.00	8.00	[ICRA]A2; Reaffirmed
Long-term fund-based Term Loans	-	6.83	[ICRA]BBB+(Negative); Reaffirmed
Unallocated limits	14.50	7.67	[ICRA]BBB+(Negative)/[ICRA]A2; Reaffirmed
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation reflects the expected improvement in the performance of Indian Terrain Fashions Limited (ITFL) in the coming quarters on the back of ITFL's established position in the men's branded apparel segment and recovery in demand conditions witnessed in the recent months. This expected improvement in revenues and earnings over the remainder of FY2022 is post the deterioration in ITFL's performance witnessed in the recent past as the pandemic severely affected demand conditions and store operations. While ITFL's operations improved gradually in H2 FY2021 supported by growth in discretionary spend and better footfalls, the overall performance for the fiscal was severely impacted by low revenues and high losses incurred in H1 FY2021. ITFL witnessed a revenue decline of 42% and net losses of around Rs.30 crore in FY2021. The losses were limited by the cost reduction measures undertaken by the company, including reduction in employee costs, marketing spends and rentals for the year. Further, the onset of the second wave of the pandemic curtailed the growth momentum seen in second half of the last fiscal and April 2021, with the company facing business disruptions in Q1 FY2022. Nevertheless, with opening of stores from July, the performance is expected to improve gradually in the coming quarters supported by improved footfalls on the back of the onset of the festive season. The expected improvement in performance in H2 FY2022 would also be supported by planned new product launches, healthy brand equity enjoyed by the 'Indian Terrain' brand and demand recovery witnessed in Tier 2 and Tier 3 markets from where ITFL generates the major portion of its revenues. Better revenues are also likely to support profitability in the second half of FY2022. Further, the coverage metrics are also expected to improve in the second half of the fiscal, given the likely improvement in earnings. Notwithstanding the said improvement, the outlook remains Negative as ITFL's leverage indicators and coverage metrics are expected to continue to be at moderate levels in FY2022 and weaker than the category medians. Its performance remains sensitive to any adverse disruptions arising out of the possible third wave.

The ratings also continue to factor in ITFL's high working capital intensity, characterised by its stretched receivables position on the back of an extended credit enjoyed by its channel partners. However, the working capital cycle is expected to improve over the medium term, supported by better collection from the MBO channel with the recent shift in the distribution model. Despite high working capital requirements, ITFL's liquidity position is expected to remain adequate, supported by the expected growth in earnings and fund infusion of Rs. 7.5 crore in Q4 FY2022, along with better collections. ICRA expects ITFL's performance to continue to improve over the medium term, supported by its established presence in the domestic men's branded apparel segment and continued efforts made to improve business diversity and reduce its receivables position.

Key rating drivers and their description

Credit strengths

Established presence in the domestic menswear segment – ITFL's flagship brand, Indian Terrain, enjoys strong recall in the men's casual wear segment, especially in South India, with a long presence of over two decades. The company has a strong multi-channel distribution network of more than 200 exclusive brand outlets (EBO), 450 large format stores (LFS) and over 1,400 MBOs encompassing over 2,000 points of sale in about 250 cities. While the EBOs allow the company additional flexibility in promotion and brand building, enabling direct engagement with customers, the MBO channel helps the company expand its geographical presence with minimal investments. ITFL also generates around 15% of sales through the e-commerce portals. Despite high dependence on the menswear segment, an established presence and favourable growth prospects for the branded apparel industry are likely to aid in volume growth over the medium term.

Conservative capital structure – Notwithstanding the high working capital funding requirements in the business, ITFL's dependence on external debt has remained low over the years. Despite a reduction in earnings and a consequent increase in the working capital debt levels witnessed in the recent fiscals, ITFL's capital structure remains at comfortable levels. Key ratios including gearing and total outside liabilities to the tangible net worth stood at around 0.2 times and 1.2 times, respectively in FY2021.

Credit challenges

Weak operating performance in FY2021 and Q1 FY2022 because of demand slowdown amid the pandemic – ITFL's operating performance was adversely impacted in FY2021 and Q1 FY2022 because of business disruptions and slowdown in discretionary spend amid the pandemic. Store closures and modest demand in the first half of FY2021 resulted in significant losses in the fiscal, despite recording some recovery in the second half. ITFL's operations were adversely impacted in Q1 FY2022, following the onset of the second wave of the Covid-19 pandemic. The company started reopening its stores from the second half of June 2021 and there has been a steady demand recovery in the recent months. ICRA expects the company's operations and performance to remain stable and normalise to the pre-Covid levels from FY2023. However, any adverse disruptions because of the possible third wave of the pandemic remains a concern and would be a key rating monitorable. Further, ITFL's growth over the medium term is also exposed to intense competition in the domestic organised men's wear segment, marked by the presence of domestic and international brands as well as established retail players. Besides, the company's business remains vulnerable to economic slowdown because of discretionary nature of consumer spending on these products.

High working capital intensity – ITFL's working capital requirements have remained high, characterised by an extended credit enjoyed by distribution channel partners coupled with stocking requirements across a wide product range. Its receivables position remained high at around 300 days towards the end of the last fiscal, given the high credit enjoyed by the MBO, large format stores (LFS) and e-commerce channel partners. Nevertheless, with recovery in demand and change in distribution model, its receivables position is expected to improve to ~240 days in FY2022 and to around 180 days over the medium term.

Liquidity position: Adequate

ITFL's liquidity position is expected to remain adequate in the coming quarters, supported by growth in earnings from operations in H2 FY2022, a steady improvement in realisation of receivables with the recovery in demand witnessed and the expected equity infusion of ~Rs. 7.5 crore in Q4 FY2022. ITFL's fund-based limits were almost fully utilised as on August 31, 2021. ITFL's total funding requirements including capital expenditure towards store expansion, repayment obligations and incremental working capital for FY2022 are likely to be limited at around Rs.10 crore against cash reserves of more than Rs.15 crore held at the end of August 2021, lending some comfort.

Rating sensitivities

Positive factors – Given the Negative outlook, an upgrade in the rating is unlikely in the near term. However, the outlook may be revised to Stable if there is a sustained recovery in volumes and earnings in the coming quarters and if the working capital intensity reduces, which would consequently result in an improvement in ITFL's credit metrics and liquidity position.

Negative factors – Pressure on ITFL's ratings may emerge if there is a sustained pressure on revenues and earnings or if the company is unable to improve its working capital cycle from the current levels, which would adversely impact its credit metrics and liquidity position.

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	Not applicable
Consolidation/Standalone	Standalone

About the company

ITFL, incorporated in 2009, is involved in retailing of readymade garments for men and boys. The apparel retail operations were commenced in 2000 under Celebrity Fashions Limited (CFL), which was demerged into a separate company with effect from April 1, 2010. ITFL primarily caters to the mid-premium and premium segments, marketing a wide range of products including shirts, trousers, T-shirts, jackets, denims and sweaters under the flagship, Indian Terrain, brand. ITFL went public in 2011 and is listed on the Bombay Stock Exchange and the National Stock Exchange. The company was started by Mr. Venkatesh Rajagopal, who has over three decades of experience in manufacturing and retailing of apparels. The promoters held a 33.21% stake in ITFL as of June 30, 2021 (including outstanding convertible securities), of which 66.44% has been pledged as collateral towards the bank facilities enjoyed by the company. The operations are currently managed by Mr. Charath Narsimhan, the Managing Director of ITFL.

Key financial indicators

Indian Terrain Fashions Limited	Audited	Audited
	FY2020	FY2021
Operating Income (Rs. crore)	369.7	213.2
PAT (Rs. crore)	-10.3	-30.8
OPBDIT/OI (%)	8.0%	-8.7%
PAT/OI (%)	-2.8%	-14.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2
Total Debt/OPBDIT (times)	1.5	-2.4
Interest Coverage (times)	1.4	-0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)				Chronology of Rating History					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	FY2021			FY2020		FY2019
					Sep 30, 2021	Oct 26, 2020	July 20, 2020	May 8, 2020	Feb 11, 2020	Aug 20, 2019	-
1	Fund based-Cash Credit	Long Term	37.50	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-	-
2	Fund-based – Working Capital limits	Short term	-	-	-	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
3	Non-Fund-based – Working capital limits	Short term	8.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4	Fund based-Term Loan	Long Term	6.83	6.83	[ICRA]BBB+ (Negative)	-	-	-	-	-	-
5	Unallocated / Proposed limits	Long term/ Short Term	7.67	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]A- (Negative)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	-

Amount in Crores; Source: ITFL

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based Working Capital Facilities	Simple
Long-term fund-based Term Loan	Simple
Short-term non-fund-based Working Capital Facilities	Simple
Unallocated limits	NA

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 analyzing 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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	37.50	[ICRA]BBB+ (Negative)
NA	Term Loan	FY2021	-	FY2026	6.83	[ICRA]BBB+ (Negative)
NA	LC (WC)	-	-	-	8.00	[ICRA]A2
NA	Unallocated	-	-	-	7.67	[ICRA]BBB+ (Negative)/[ICRA]A2

Source: *ITFL*

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

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