January 18, 2023 (Revised)

Indian Terrain Fashions Limited: Ratings reaffirmed; rated amount enhanced

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	44.00	[ICRA]BBB+(Stable); reaffirmed/assigned
Long-term fund-based Term Loans	9.99	8.21	[ICRA]BBB+(Stable); reaffirmed
Short-term non-fund-based Working Capital Facilities	8.00	8.20	[ICRA]A2; reaffirmed/assigned
Short-term – Interchangeable	-	(0.50)	[ICRA]A2; assigned
Unallocated limits	4.51	9.59	[ICRA]BBB+(Stable)/[ICRA]A2 reaffirmed/assigned
Total	**60.00**	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in improvement in the operational and financial performances of Indian Terrain Fashions Limited (ITFL) in H1 FY2023, with the improvement expected to continue throughout the remainder of the fiscal. Post the impact of the pandemic-induced business disruptions on ITFL's performance in FY2021 and Q1 FY2022, the company's operations have improved gradually, supported by growth in discretionary spend and better footfalls across distribution channels. ITFL's revenue growth continued in the current fiscal to Rs. 253.0 crore in H1 FY2023 (Rs. 124.7 crore in H1 FY2022), backed by stable demand, proposed store expansion and healthy brand equity of the 'Indian Terrain' brand. ITFL's operating margins have improved to around 11-12% in H1 FY2023, backed by favourable pricing and better economies of scale. The expansion in the operating margins in the near term is likely to be limited, due to the sharp increase in raw material prices witnessed over the last few quarters. The operating margins for FY2023 are expected to be at ~12% and improve to around 13-14% over the medium term, upon stabilisation of raw material prices and favourable premium mix in products.

ITFL's coverage metrics improved in the current fiscal, backed by growth in scale and operating profits. The key metrics such as the interest coverage ratio improved to around 3 times for H1 FY2023, post the modest levels of 1.4 times in FY2022. With expected steady growth in the scale of operations and earnings and focused efforts on reducing the receivables position, the interest coverage ratio is likely to improve further. The ratings also continue to factor in ITFL's high working capital intensity, characterised by its high 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, with ITFL focusing on reducing its receivables position to around 180 days over the next 12-18 months. Despite the high working capital requirements, ITFL's liquidity position is expected to remain adequate, supported by the likely growth in earnings and fund infusion of Rs. 7.5 crore in Q1 FY2023, along with better collections. ICRA expects ITFL's performance over the medium term to be 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.

The Stable outlook reflects ICRA's opinion that ITFL's performance in the coming quarters will continue to benefit from its established market position and ongoing efforts to expand presence in Tier II & III cities and reduce receivables position.

Key rating drivers and their description

Credit strengths

Established presence in 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 presence of over two decades. The company has a strong multi-channel distribution network of more than 232 exclusive brand outlets (EBO), 468+ large format stores (LFS) and over 1,200 multi-brand outlets (MBOs) across 250+ cities. While the EBOs allow the company additional flexibility in promotion and brand building, enabling direct engagement with customers, the MBO channel helps ITFL expand its geographical presence with minimal investments. ITFL also generates around 15% of sales through 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 the company's growth over the medium term.

Improvement in operating performance in recent quarters and conservative capital structure – ITFL's revenues and earnings have witnessed steady growth in the recent past, backed by the recovery in demand across sales channels, focused marketing efforts undertaken and strong footfalls, with the demand having largely reached the pre-Covid levels by Q4 FY2022. The same was post the modest performance in FY2021 and H1 FY2022, because of the pandemic-induced demand disruptions across states and distribution channels. Further, ITFL's credit profile remains supported by its 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 lower earnings and a consequent increase in the working capital requirements in the recent past, ITFL's capital structure remains at comfortable levels. The key ratios including gearing and total outside liabilities to tangible net worth (TOL/TNW) stood at around 0.5 times and 1.4 times, respectively, in H1 FY2023 and is likely to remain at similar levels for the fiscal.

Credit challenges

High working capital intensity – The apparel retail business inherently entails high working capital requirements towards stocking garments across a wide product range in its outlets and high credit enjoyed by distribution channel partners. While ITFL's inventory turnover is comfortable with its sales distributed across channels, its receivables position remains stretched on the back of an extended credit enjoyed by the MBO, LFS and e-commerce channel partners. However, despite this, its receivables position has improved, to some extent, in the recent past with the recovery in demand. Nevertheless, an expected improvement in the working capital cycle and ITFL's adequate liquidity position, provide some comfort.

Exposure to consumer spending trends and intense competition, and resultant pressures on operating performance – The branded menswear segment is characterised by intense competition, with continuous expansion undertaken by a number of established brands across regions. The same mandates continued high marketing spend for retailers, limiting operating margins of market players. ITFL's sales, profitability, and cash accruals, like any other apparel retailer, are closely linked to macroeconomic conditions, consumer confidence and spending patterns, particularly considering the discretionary nature of its products. Besides, its sales remain vulnerable to the consumers' changing tastes and preferences, and the competition from other large, branded players in the menswear segment. ITFL's proposed entry into new markets, and an expected increase in sales promotion expenses are likely to limit its margin expansion over the medium term. However, an established presence and favourable growth prospects for the branded apparel industry, are likely to aid in volume growth over the medium term. Also, the ongoing efforts to improve penetration in North and Central India are likely to reduce revenue concentration from the southern markets over the coming fiscals.

Liquidity position: Adequate

ITFL's liquidity position is expected to remain adequate in the coming quarters, supported by growth in earnings from operations and free cash reserves, including liquid investments of more than Rs. 40 crore in end of September 2022. The average utilisation of its working capital limits over the last nine months ending December 2022 stood at around 88%, given the high working capital requirements in the business. Given the limited debt repayment obligations and capital expenditure requirements over the next 12 months, ITFL's incremental working capital requirements are likely to be funded through cash accruals and undrawn lines of credit, which lends comfort to its liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded, if the company registers a sustained growth in revenues and earnings, coupled with improvement in working capital cycle, which would result in improvement in its debt protection metrics. A specific metric for an upgrade is if interest cover is more than 4 times, on a sustained basis.

Negative factors – Pressure on ITFL's ratings may emerge, if there is any sustained pressure on revenues and earnings or deterioration in its working capital cycle, which would adversely impact its credit metrics and liquidity position. A specific metric for a downgrade is if TD/OPBDITA is more than 2.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry-Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financials of the company

About the company

ITFL, incorporated in 2009, is involved in retailing of readymade garments for men and boys. The apparel retail operations commenced in 2000 under Celebrity Fashions Limited (CFL), which was demerged into a separate company w.e.f. 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 its flagship brand, 'Indian Terrain'. ITFL went public in 2011 and is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). 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 29.1% stake in ITFL as of September 30, 2022 (including outstanding convertible securities), of which 63.9% has been pledged as collateral towards the bank facilities enjoyed by the company. At present, the operations are managed by Mr. Charath Narsimhan, the Managing Director of ITFL.

Key financial indicators (audited)

Indian Terrain Fashions Limited	FY2021	FY2022	H1 FY2023*
Operating income (Rs. crore)	222.5	336.3	253.0
PAT (Rs. crore)	-30.8	-2.2	11.0
OPBDIT/OI	-15.3%	8.0%	11.7%
PAT/OI	-13.8%	-0.7%	4.4%
Total outside liabilities/Tangible net worth (times)	1.3	1.3	1.4
Total debt/OPBDIT (times)	-3.5	4.1	1.8
Interest coverage (times)	-2.2	1.4	3.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *Unaudited numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of Rating History for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021			Date & rating in FY2020	
					18-Jan-23	24-Jun-22	30-Sep-21	26-Oct-20	20-Jul-20	08-May-20	11-Feb-20	20-Aug-19
1	Cash Credit	Long Term	44.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-
2	Fund based-Term Loan	Long Term	8.21	8.21	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	-	-	-	-	-
3	Fund-based – Working Capital limits	Short term	-	-	-	-	-	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Non-Fund-based – Working capital limits	Short term	8.20	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5	Interchangeable	Short term	(0.50)	-	[ICRA]A2							
6	Unallocated limits	Long term/ Short Term	9.59	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[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 instruments

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
Short-term - Interchangeable	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	37.50	[ICRA]BBB+ (Stable)
-	Standby Line of Credit	-	-	-	6.50	[ICRA]BBB+ (Stable)
-	Term Loans	FY2021	-	FY2026	8.21	[ICRA]BBB+ (Stable)
-	LC (WC)	-	-	-	8.00	[ICRA]A2
-	Forward Contract Limit	-	-	-	0.20	[ICRA]A2
-	Bank Guarantee	-	-	-	(0.50)	[ICRA]A2
-	Unallocated	-	-	-	9.59	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: *Company Source*

Please click here to view details of lender-wise facilities rated by ICRA

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

Corrigendum:

Document dated January 18, 2023 has been corrected with revisions as detailed below:

- In the Rating history for past three years section on Page 4, date has been modified for FY2023

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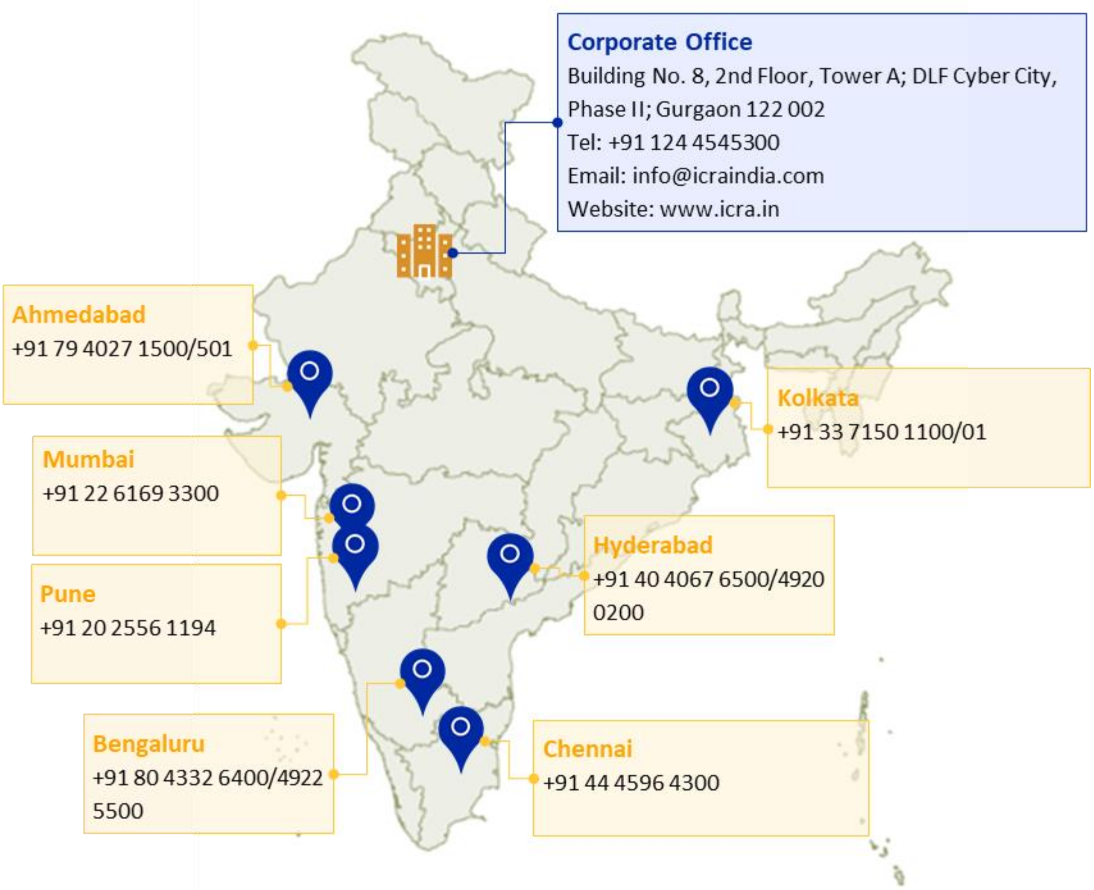

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