

October 24, 2024

Go Fashion (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - fund based facility - cash credit	69.00	69.00	[ICRA]A+ (Stable); reaffirmed
Short term – non-fund based	156.00	156.00	[ICRA]A1+; reaffirmed
Total	225.00	225.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings on the bank lines of Go Fashion (India) Limited (GFIL) considers its healthy performance in FY2024 and expected sustenance of the same over the medium term, supported by its strong market position in the domestic women's bottom wear segment as well as its continuous focus on widening its market presence through new store additions. GFIL's financial profile remains healthy and is characterised by strong capitalisation levels and liquidity position, as well as low dependence on external borrowings. ICRA expects GFIL's revenues to witness a steady growth of 10-15% over the medium term, driven by its strong brand recall, large untapped and unorganised market, and continued diversification measures with ~120-130 exclusive brand outlets (EBOs) proposed to be added every year in the coming fiscals.

Further, GFIL's operating margins are likely to remain elevated over the near-to-medium term, backed by its operating efficiency, better economies of scale and increasing revenue contribution from the margin-accretive EBO channel. The company's financial profile remains comfortable, driven by its steady earnings and cashflows from its operations, which are utilised for meeting working capital requirements with low dependence on external debt. Further, given the healthy cash accruals envisaged, GFIL's credit metrics and liquidity position are expected to remain strong despite the planned capital expenditure and incremental working capital requirements (on the back of proposed store additions). GFIL's operational profile is characterised by its established market position with its brand, Go Colors, enjoying a pan-India multi-channel distribution network and a diversified product portfolio within the women's bottom wear segment.

The ratings, however, remain constrained by GFIL's presence in an intensely competitive segment, which limits the pricing flexibility and exposes its earnings to fluctuations in raw material prices. The ratings also consider that the company's performance remains vulnerable to the evolving consumer fashion and spending trends. Besides, the working capital intensity of operations for an entity operating in a retail segment remains high primarily due to high inventory holding requirements inherent to the nature of the business.

The Stable outlook reflects ICRA's opinion that GFIL's performance in the coming quarters will continue to benefit from its established market position with a healthy operating efficiency, proposed diversification initiatives and strong capitalisation level. Further, the outlook underlines ICRA's expectation that the entity's incremental capex towards store additions will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established market position – Incorporated in 2010, GFIL designs and retails women's bottom-wear products under its brand, Go Colors, which has an established presence and strong recall value in the domestic branded apparel market. Its pan-India multi-channel distribution network comprised 734 exclusive brand outlets (EBOs), as well as 2,313 large format store (LFS) outlets as on June 30, 2024. GFIL derives the major portion of its revenue (~73% in FY2024 and ~69% in Q1 FY2025) from its EBOs, which supports its profitability. Further, its revenues and earnings over the years have been supported by its

wide product portfolio across ethnic and western product categories within the bottom wear segment and strong operating efficiency (store economics) supporting its healthy margins.

Strong financial profile and healthy coverage metrics – GFIL has witnessed a healthy revenue growth (5-year CAGR of 22%), supported by its established market position. The company's operating income grew by ~15% on a YoY basis to Rs. 762 crore in FY2024 while maintaining steady operating profitability at 32.7%, despite a tepid demand environment for the fiscal. The company's capital structure and debt protection metrics continue to be strong, supported by healthy profitability and lower dependence on external debt. GFIL had no fund-based bank borrowings, and including lease liabilities, the overall TOL/TNW stood comfortable at 0.8 times as on March 31, 2024. Further, its interest cover stood at 5.9 times and total debt¹/ OPBDITA stood healthy at 1.9 times as on March 31, 2024. The company is expected to report revenue growth of 10-15% in the coming fiscals owing to steady demand conditions and continuous store additions, maintaining its healthy operating margins.

Credit challenges

High working capital intensity – GFIL operates in a working capital intensive retail segment, characterised by high stock levels, given its wide product portfolio. GFIL's receivables have been in the range of 40-60 days and inventory days have remained high in the range of 170-250 days over the last three years. While inventory holding decreased to 177 days as on March 31, 2024 compared to 220 days as on March 31, 2023, it still remained high. Despite the high working capital intensity, GFIL's credit profile derives comfort from its strong coverage metrics and liquidity position, with minimal dependence on external borrowings. Its working capital requirements are funded through internal accruals.

Exposure to consumer spending trends and intense competition – GFIL's sales, profitability and cash accruals, like any other apparel retailers, are closely linked to macroeconomic conditions, consumer confidence and spending patterns. Further, the segment is very competitive with the presence of various branded as well as unbranded players in the women's bottom wear market. This exposes GFIL's profitability to limited pricing flexibility and fluctuations in raw material prices.

Environmental and Social Risks

Environmental considerations: GFIL, an own-brand retailer, remains exposed to the risks of elevated input costs owing to increased compliance expenses faced by suppliers amid tightening environmental regulations. Increase in raw material costs (mainly cotton, which is a water-intensive crop and production of the same is dependent on rainfall), could impact the margins of GFIL. While these risks have not resulted in any material implication, policy actions towards waste management, like textile recycling, could have cost implications.

Social considerations: Increasing access to customer data, following the growing penetration of e-commerce, poses data privacy and legal risks for retail entities. Operating in a manpower-intensive segment, entities like GFIL are exposed to the risks of business disruption due to inefficient management of human capital in terms of their safety and overall well-being. Measures taken by the company towards employee welfare have resulted in no material impact on the performance from the above-mentioned risks till date. The company is also subject to other social factors such as responsible sourcing, product, and supply chain sustainability, given the high reliance on external suppliers. Entities also remain exposed to major shifts in consumer preferences or developments, affecting discretionary consumer spending.

Liquidity position: Strong

GFIL's liquidity position is expected to remain strong, supported by steady earnings from operations, healthy cash and liquid investments and unutilised lines of credit. GFIL had free cash reserves, including liquid investments of ~Rs. 214 crore at the end of June 2024, apart from its unutilised working capital limits (utilisation of fund-based limits remained nil against sanctioned limits of Rs.69 crore). GFIL's cash accruals are expected to meet any funding requirements for expansion and the resultant incremental working capital requirements, with the surplus cash reserves lending comfort.

¹ This comprises entirely lease liabilities in line with Ind AS 116

Rating sensitivities

Positive factors – The long-term rating may be upgraded if GFIL is able to register significant growth in revenues while maintaining a strong profitability profile, comfortable debt protection metrics and healthy liquidity position.

Negative factors – ICRA may downgrade the ratings if there is any sustained pressure on revenues or profitability, or a sharp deterioration in the working capital cycle, which could adversely impact the company's coverage metrics and liquidity position. Specific metrics for a rating downgrade include the interest cover remaining below 5.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Apparels
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 2010 by Mr. Vinod Kumar Saraogi and Mr. Prakash Kumar Saraogi, GFIL is involved in the retailing of women's bottom-wear products under its brand, Go Colors. The products are sold in the domestic market through its extensive pan-India retail channel comprising 734 EBOs and around 2,313 large format stores as on June 30, 2024. The company was listed on the Bombay Stock Exchange and the National Stock Exchange in November 2021, with the promoter and the promoter group holding around 52.8% stake in the company as on June 30, 2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	Q1 FY2025*
Operating income	665.3	762.8	220.1
PAT	82.8	82.8	28.7
OPBDIT/OI	32.8%	32.7%	32.8%
PAT/OI	12.4%	10.9%	13.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.8	-
Total debt/OPBDIT (times)	1.6	1.9	-
Interest coverage (times)	7.0	5.9	6.2

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Amount rated (Rs. crore)	Chronology of rating history for the past 3 years			
			Current rating (FY2025)		Date & rating in	
			Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Oct 24, 2024	July 27, 2023	Apr 07, 2022	--
1 Cash Credit	Long-term	69.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	--
2 Letter of Credit	Short term	156.00	[ICRA]A1+	[ICRA]A1+	--	--
3 Interchangeable Limits	Short term	--	--	--	[ICRA]A1	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - fund based facility - cash credit	Simple
Short term – non-fund based	Very simple

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
NA	Long term - fund based facility - cash credit	NA	NA	NA	69.00	[ICRA]A+ (Stable)
NA	Short term – non-fund based	NA	NA	NA	156.00	[ICRA]A1+

Source: GFIL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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Branches



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