February 11, 2020

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	0.00	30.00[1]	[ICRA]A-(Stable); re-affirmed
Short-term fund-based Working Capital Facilities	30.00	11.50	[ICRA]A2+; re-affirmed
Short-term non-fund-based Working Capital Facilities	13.50	8.00	[ICRA]A2+; re-affirmed
Unallocated limits	16.50	10.50	[ICRA]A-(Stable) / [ICRA]A2+; re-affirmed
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The re-affirmation of ratings reflects the steady operational and financial performance of Indian Terrain Fashions Limited (ITFL) in 9M FY2020 and the expected improvement in performance in the coming quarters on the back of its established presence in the branded men's wear segment in South India with a strong multi-channel distribution network. ITFL's revenue growth has been limited in the recent quarters, constrained by tepid domestic consumption levels and temporary business disruption due to transition towards distribution model in the multi-brand outlets (MBO) channel. Nevertheless, its ongoing expansion towards improving penetration in North and Central India and steady growth prospects in the domestic branded premium men's wear segment are likely to drive an annual growth of around 6-8% over the medium term. Operating margins are likely to moderate to around 10.5% in the current fiscal, in line with the earlier expectations, owing to increased marketing spends and discounts extended. Selling expenses have remained high because of the modest demand conditions, continuing expansion across markets and increasing competition in the branded apparel business from several established brands. ITFL's working capital intensity remains high, characterised by high receivables position, with its debtor days increasing to around 210 in the recent quarters on the back of an extended credit enjoyed by its channel partners. However, the same is likely to improve in FY2021, supported by better collection from the MBO channel with the recent shift to the distribution model from the direct sales model. ITFL's receivables cycle is likely to reduce to around 180 days in the coming quarters and would be a key monitorable. Despite the high working capital funding requirements, the ratings are supported by ITFL's comfortable financial risk profile, driven by its relatively stable earnings from operations and limited capital expenditure requirements because of its asset light model of operations. Despite some moderation in earnings witnessed in YTD FY2020, ITFL's credit metrics have remained at adequate levels. Key ratios including adjusted debt[2] to operating profits and interest coverage are expected to improve to around 1.0 times and 6 times, respectively in FY2021, after weakening marginally to around 1.1 times and 5 times, respectively in FY2020. Its liquidity position is also expected to remain comfortable, supported by cash equivalents held to the tune of around Rs. 30 crore as on December 31, 2019. ICRA expects ITFL's performance to remain

[1] *The long-term fund-based working capital facility has been carved out from the reduction in limits of other facilities rated*

[2] *Total debt adjusted for cash and liquid investments held and for vendor bills discounted*

stable over the medium term, supported by its established presence and ongoing efforts to expand presence in non-South markets and reduce receivables position.

Key rating drivers and their description

Credit strengths

Established market presence in the domestic men's wear 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 170 exclusive brand outlets (EBO), 380 large format stores (LFS) and 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 10% 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. 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.

Comfortable debt protection metrics – Despite an increase in working capital intensity and some moderation in earnings, ITFL's financial profile is characterised by a conservative capital structure with adequate credit metrics. Key ratios including total outside liabilities to tangible net worth, adjusted debt to operating profits and interest coverage are expected to be at around 0.8 times, 1.0 times and 5 times, respectively in FY2020.

Credit challenges

High working capital intensity – Apparel retail business inherently entails high working capital requirements towards stocking garments across a wide product range and high credit enjoyed by distribution channel partners. Its receivables position is stretched because of an extended credit enjoyed by the MBO, LFS and e-commerce channel partners. ITFL's receivable cycle has increased steadily in the recent past to more than 200 days over the last 12 months. Nevertheless, an expected improvement in working capital cycle and ITFL's comfortable liquidity position provide some comfort.

Moderate operating profitability – The operating profitability of ITFL has been under pressure in the recent quarters, limited by increasing selling expenses (including discounts) amid modest demand and intense competition in the branded men's wear segment. Pressure on domestic consumption levels coupled with continuous expansion undertaken by several established brands across the regions has limited growth in the retail segment in the recent past. Besides, ITFL's proposed entry into the new markets is likely to result in continued high sales promotion expenses and limit its operating margins in the coming quarters.

Liquidity position: Adequate

ITFL's liquidity position is comfortable, supported by internal accruals and cash reserves held, despite the incremental funding requirements towards working capital witnessed in the recent quarters. The company had cash equivalents (free cash reserves and liquid investments) of around Rs. 30 crore as on December 31, 2019 (down from ~Rs. 35 crore in March 2019). High working capital intensity characterised by rising receivables position constrained the company's free cash flows in 9M FY2020. Nevertheless, ITFL's liquidity position is expected to remain comfortable on the back of better earnings from operations and an improvement in receivables cycle anticipated in the coming quarters.

Rating sensitivities

Positive triggers – ITFL's ratings may be upgraded if the company demonstrates a sustained improvement in its working capital cycle, as it pursues its growth objectives. The ratings may also be upgraded if the company's interest coverage improves to more than 7.0 times on a sustained basis, concurrent with the achievement of greater business diversity as a positive effect of attaining a relatively bigger scale of operations.

Negative triggers –ITFL's ratings may be downgraded if the company is unable to improve its working capital cycle or if its earnings from operations are weaker than expected amid intense competition and tepid demand conditions, which could adversely impact its coverage 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 was incorporated in 2009 and 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 30.1% stake in ITFL as of December 31, 2019, of which 67% 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 (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	401.5	422.4
PAT (Rs. crore)	25.4	25.7
OPBDIT/OI (%)	11.9%	12.0%
RoCE (%)	19.9%	19.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDITA (times)	0.8	0.7
Interest Coverage (times)	6.8	6.0
DSCR	6.0	4.4

Source: ITFL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Type	Rating (FY2020) Amount Rated	Amount Outstanding	Current Rating Feb 11, 2020	Earlier Rating Aug 20, 2020	Rating History for the Past 3 Years FY2019	FY2018	FY2017
							-	-	-
1	Fund based-Cash Credit	Long Term	30.00	-	[ICRA]A- (Stable)	-	-	-	-
2	Fund-based – Working Capital limits	Short term	11.50	-	[ICRA]A2+	[ICRA]A2+	-	-	-
3	Non-Fund-based – Working capital limits	Short term	8.00	-	[ICRA]A2+	[ICRA]A2+	-	-	-
4	Unallocated / Proposed limits	Long term/ Short Term	10.50	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

Amount in Rs. crore; Source: ITFL

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 www.icra.in

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	-	-	-	30.00	[ICRA]A-(Stable)
NA	Standby line of credit	-	-	-	5.50	[ICRA]A2+
NA	Ad-hoc WC limit	-	-	-	6.00	[ICRA]A2+
NA	LC (WC)	-	-	-	8.00	[ICRA]A2+
NA	Unallocated	-	-	-	10.50	[ICRA]A-(Stable) / [ICRA]A2+

Source: ITFL

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

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