October 26, 2020

Indian Terrain Fashions Limited: Change in limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based Working Capital Facilities	30.00	37.50	[ICRA]BBB+(Negative); outstanding
Short-term fund-based Working Capital Facilities	13.50	-	-
Short-term non-fund-based Working Capital Facilities	8.00	8.00	[ICRA]A2; outstanding
Unallocated limits	8.50	14.50	[ICRA]BBB+(Negative)/ [ICRA]A2; outstanding
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reflect the established position of Indian Terrain Fashions Limited (ITFL) in the men's branded apparel segment, diversified market presence across regions and a strong multi-channel distribution network which had supported revenues and earnings over the years. The Negative outlook reflects the expected pressure on the operating performance in the current fiscal, given the tepid demand conditions witnessed in the domestic apparel retail segment following the Covid-19 pandemic. While ITFL's performance in the first nine months of FY2020 was largely stable, its revenues and earnings have been adversely impacted in the recent quarters because of the weak consumption levels and high operating costs along with the closure of stores during the major part of March - June 2020. While ITFL's revenues are likely to decline by ~56% in the first nine months of CY2020, it is expected to improve gradually in the coming quarters supported by improved footfalls on the back of the onset of the festive season. The improvement in performance expected in H2 FY2021 would 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 FY2021, with an expected operating margin of 8% in H2 FY2021. The same follows sizeable operating losses incurred in the first nine months of CY2020 because of a sharp drop in revenue from the high contribution sales channels in March 2020 owing to the pandemic, higher discounts extended and firm operating costs during the major portion of the period. Further, the coverage metrics are also expected to improve in the second half of the fiscal, given the likely improvement in earnings, post the cash losses incurred in H1 FY2021.

The ratings also continue to factor in ITFL's high working capital intensity, characterised by its stretched receivables position, with its debtor days increasing in the recent quarters on the back of an extended credit enjoyed by its channel partners. The overall working capital requirements are likely to remain firm in the current fiscal, given the challenging demand conditions witnessed. 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 to the distribution model. Despite the high funding requirements, ITFL's liquidity position is expected to remain adequate, supported by the expected improvement in earnings and proposed fund-raising plans of Rs. 20 crore in H2 FY2021, along with better collection from receivables. ICRA expects ITFL's performance 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 market 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 around 200 exclusive brand outlets (EBO), 485 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 12% 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 past, ITFL's capital structure remained at comfortable levels. Key ratios including gearing and total outside liabilities to tangible net worth stood at around 0.2 times and 1.3 times, respectively in FY2020.

Credit challenges

Sharp decline in revenues and profitability expected in FY2021 on account of the demand slowdown amid the pandemic – ITFL's operating performance has been under pressure in the recent quarters, because of weak demand conditions and high operating costs amid intense competition. Given the discretionary nature of consumer spending coupled with business disruptions witnessed, ITFL's operating performance was weak in H1 FY2021. Despite the expected improvement in performance in the second half of the fiscal, ICRA expects ITFL to post a considerable reduction in revenues and earnings notwithstanding the cost reduction measures undertaken.

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 had increased to more than 240 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 amid modest demand conditions.

Liquidity position: Adequate

ITFL's liquidity position is expected to remain adequate in the coming quarters supported by the proposed equity infusion of ~Rs. 20 crore in H2 FY2021, steady improvement in collection from receivables with the recovery in demand witnessed, along with better earnings from operations. The same is despite the expected increase in funding requirements in the second half of the fiscal, given the reduction in fund-based limits by Rs. 15.50 crore by the end of the fiscal (primarily owing to expiry of the fungibility of non-fund based limits to fund-based limits). ITFL's fund-based limits were almost fully utilised at the end of September 2020 and cash reserves stood at ~Rs. 11 crore at the end of the month.

Rating sensitivities

Positive triggers – Given the Negative outlook, an upgrade in the ratings is unlikely in the near term. However, the outlook may be revised to Stable if there is a strong 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 triggers – Pressure on ITFL's ratings may emerge if there is a sustained pressure on revenues and earnings in the coming quarters following the Covid-19 pandemic, 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 30.09% stake in ITFL as of March 31, 2020, of which 66.98% 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)

	FY2019	FY2020
Operating Income (Rs. crore)	422.4	369.7
PAT (Rs. crore)	25.7	-10.3
OPBDIT/OI (%)	12.0%	8.0%
PAT/OI (%)	6.1%	-2.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.3
Total Debt/OPBDIT (times)	0.7	1.5
Interest Coverage (times)	6.0	1.4

Source: ITFL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

					Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating			FY2020		FY2019	FY2018
					26-Oct-20	20-Jul-2020	8-May-2020	11-Feb-2020	20-Aug-2020	-	
1	Fund based-Cash Credit	Long Term	37.50	-	[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+	-	
4	Unallocated / Proposed limits	Long term/ Short Term	14.50	-	[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 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 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	-	-	-	37.50	[ICRA]BBB+(Negative)
NA	LC (WC)	-	-	-	8.00	[ICRA]A2
NA	Unallocated	-	-	-	14.50	[ICRA]BBB+(Negative) / [ICRA]A2

Source: ITFL

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

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