Go Fashion (India) Private Limited

Textiles-Retail
Corporate

Credit Perspective

February 2021

RATING ACTION

Ratings assigned

Long - term Rating

[ICRA]A- (Stable)

Short - term Rating

[ICRA]A2+ (Stable)

Total Limits Rated

Rs. 65.00

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Rating Rationale

The assigned ratings reflect the healthy operational profile of Go Fashion (India) Private Limited (GFIPL), characterised by the strong presence of its flagship brand, Go Colors, in the domestic women's bottom-wear segment, as well as its established pan-India multi-channel distribution network. Driven by sustained store additions and increasing brand presence, the company's revenue witnessed a compounded annual growth rate (CAGR) of 57% during the last five years. Further, ICRA notes that its asset light manufacturing model and sales focus through company-managed retail outlets supports scalability and return metrics. The ratings also factor in GFIPL's comfortable financial profile characterised by healthy profitability, strong liquidity profile and capital structure with minimal dependence on external fund-based borrowing. ICRA notes that the company's capex and working capital requirement for revenue growth was supported by fund infusion from external investors.

The ratings, however, are constrained by the company's moderate scale of operations and expected moderation in revenue and profitability in FY2021 on account of the Covid-19 pandemic-related nationwide lockdown and demand slowdown in the apparel retail sector. While a considerable number of the stores have resumed operations in the recent months, the sales volumes remained modest due to its significant presence primarily in tier-1 cities, where the pandemic has been rampant. Going forward, the strength of the recovery in performance will highly depend on the duration and extent of the pandemic as well as related changes in consumer behaviour. The ratings are also constrained by its business model with high segmental concentration amid the fragmented and intensely competitive domestic apparel market. ICRA also notes the sizeable working capital requirements in retail business owing to high inventory holding.

Rating Outlook

The Stable outlook on the ratings reflects ICRA's opinion that GFIPL will continue to benefit from its established brands, healthy financial risk profile and extensive experience of promoters in the garments industry.

Key Rating Drivers/Considerations

Credit Strengths

- Strong market position in the women's bottom wear segment with an established brand (Go Colors) and presence of multi-channel distribution network across India
- Strong financial profile characterized by healthy margins. Further, company's debt protection metrics are healthy, supported by low dependence on external funding.
- Asset-light model in manufacturing that supports scalability (production entirely outsourced and all company operated stores are taken on lease)

Credit Challenges

- Significant decline in revenue and margins in FY2021 due to loss of sale during lockdown and weak demand conditions due to pandemic
- High working capital intensity due to high inventory holding requirement
- Exposure to consumer spending trends, intense competition (from various established national and local/regional brands), and resultant pressures on operating performance

Rating Sensitivities

Positive Triggers

- The company's ratings could be upgraded if there is a revival in the industry demand scenario resulting in a sustainable growth of revenue and profitability, together with efficient management of working capital

Negative Triggers

- A continued pressure on revenue growth and profitability (especially on account of any prolonged impact of the coronavirus spread) may result in a downward pressure on the ratings. The ratings may also be downgraded if there is weakening of liquidity/capital structure or debt protection metrics on account of any large capex/inorganic expansions. Specific credit metrics that could lead to a downgrade include adjusted interest coverage[1] less than 4.0 times on a sustained basis.

[1] *adjusted interest coverage where both OPBDITA and Interest are calculated without accounting for INDAS 116 operating lease adjustments*

Company Profile

Incorporated in 2010 by Mr Vinod Kumar Saraogi and Mr Prakash Kumar Saraogi, GFIPL is involved in designing, manufacturing and retailing of women's bottom-wear products under their own brand named Go Colors. The products are sold primarily in the domestic market through extensive retail channel including ~453 own stores and the remaining primarily from sales through large format stores. The company has had two rounds of private equity (PE) investment through 0.01% compulsory convertible cumulative preference share with the PE investors – Sequoia Capital India and ICICI Ventures, together having 42.5% of the fully diluted holdings in the company.

EXHIBIT 1: Fully Diluted Shareholding Pattern

Fully Diluted Shareholding Pattern	As on March 31, 2020
VKS Family Trust	28.74%
PKS Family Trust	28.74%
Sequoia Capital India Investments IV	28.73%
India Advantage Fund S4 I	12.69%
Dynamic India Fund S4 US I	1.10%

Source: *Company data*

BUSINESS RISK PROFILE

Major player in women's legwear with strong brand name in the industry: GFIPL designs and retails women's bottom-wear products under its brand Go Colors, which has an established presence in the domestic branded apparel market. Over the past 10 years, the brand has gained popularity due to its product quality and availability of wide range of colors. Further, the company has been introducing new products, in women leg-wear segment, over recent past.

Company derives major portion of sales from own stores which supports margins: The company has 4 main sales channels - EBOs, LFS, online sales and distributers. GFIPL derives a major portion of its revenue (71% in FY2020) from their own stores, which supports its profitability. The company has tie-up with several LFSs like Trends, Unlimited, Shoppers Stop etc. In current year, online sales have picked-up due to lock-down. For online sales, the company has its own website and also has tie-up with major e-commerce sites like Amazon, Flipkart, Myntra etc.

EXHIBIT 1. Sales channel wise details

Sales Channels	No. of showrooms			Revenue share		
	FY2019	FY2020	7M FY2021	FY2019	FY2020	7M FY2021
Company managed showrooms (EBOs)	349	460	453	66%	71%	53%
Franchisee (EBOs)	13	15	13	1%	1%	1%
Multi brand outlets (MBOs)						
Large format stores (LFS)within MBOs	912	1366	1371	26%	24%	36%
Others	90	80	74	6%	4%	10%

Source: The company

Asset light manufacturing operations; production is entirely through job-work: The company manufactures entirely on job-work basis. It procures knitted fabric (primarily cotton) and gives them for job-work to weaving firms. Procurement of fabric is taken care of company to ensure they meet their quality requirements. Fabric is procured primarily from domestic sources, with some specialized fabric imported from China as well. For woven garments (jean, denim wear etc.), the company procures the apparels directly from Bangladesh.

Moderate geographic concentration risks: Company sales is primarily only in domestic market. In domestic market, ~50% revenue is derived from southern 5 states and major portion of revenue is derived from Maharashtra. Sales across most of the states have witnessed YoY growth in FY2020 aided by new store expansions. GFIPL have a strong presence in tier-1 cities, especially in Southern and Western states. It derives ~70% of revenue from tier-1 cities and remaining from tier-2 & tier-3 cities. With its's products positioned in mid-range pricing segment, it faces competition from other organised players in tier-1 and tier-2 cities. It currently does not have any major presence in tier-3 cities where it faces stiff competition from unorganised players.

EXHIBIT 2. Regions-wise sales break-up

Regions	No. of Own stores*	FY2019	FY2020	7M FY2021
South	45%	53%	51%	51%
West	26%	25%	25%	20%
North	18%	12%	13%	17%
East	10%	8%	9%	10%
Central	2%	2%	1%	2%
Total	**100%**	**100%**	**100%**	**100%**

*Source: The company; * as of FY2019*

Sales distribution is uniform across seasons: The company's sales distribution is evenly spread out across the year with each quarter contributing to minimum 20% of sales. Due to higher demand during festive season (Diwali, Christmas), sales contribution from Q3 is generally higher than other quarters.

EXHIBIT 3. Seasonality in sales

Quarters*	Quarterly sales %	
	FY2019	FY2020
Q1	23%	24%
Q2	24%	25%
Q3	28%	30%
Q4	25%	21%
	100%	**100%**

*Source: The company; *as per FY*

FINANCIAL RISK PROFILE

Significant growth in revenue YoY aided by aggressive expansion over the years

The company has witnessed significant growth supported by its growing retail network, as reflected by a CAGR of 57% in its sales turnover during FY2016-FY2020. Its products MRP are at mid-range and average realization of products depends on revenue share from own stores and LFSs (since LFS takes margin of ~40% on MRP). GFIPL's revenue has dipped in 8M FY2021 to Rs. 139 crore due to closure of its stores on account of the nationwide lockdown. However, its sales have improved over the recent past (since October 2020) with re-opening of stores and revival in demand during the festive season. Nonetheless, the full year revenue is expected to decline by ~40%.

Healthy and stable margins since FY2018; expected to moderate in current year

The company's adjusted operating margin grew to 22.3% in FY2020 from 20% in FY2019 supported by growth in scale and better absorption of overhead cost. The adjusted net margins have also improved to 16.8% in FY2020 from 12.8% in FY2019 on the back low financial expense and improved operating margins. Improvement in profitability combined with low capex requirement resulted in a healthy adjusted return on capital employed (RoCE), which improved to 31.7% in FY2020 from 18.6% in FY2017. In FY2021, the company has reported net loss of ~Rs. 9.5 crore in 8M FY2021, however improved from loss of -Rs. 24.7 crore in 6M FY2021. For full year, given the expected reduction in scale by around ~40%, its profitability will be adversely impacted as fixed overhead costs remain high relative to sales.

High working capital intensity of operations

The apparel retail business is working capital-intensive in nature with high inventory holding requirements in all the stores across a wide product range. The company's inventory days is generally around 140 – 160 days. Sales in EBO and to most of the distributors is on cash and carry basis. For some distributors credit period of ~30 days is given while collections from franchises and LFSs are settled at month-end. The company's imports are mostly backed by LCs (90-120 days), while domestic purchases are on open credit with credit period of 30 - 60 days. The company's working capital intensity averaged at ~39% during the past four years. However, despite its high working capital intensity, GFIPL relies primarily on internal accruals for funding its working capital requirements with minimal dependence on external borrowings.

Healthy capital structure and coverage metrics over the years due to low debt-level

The company's adjusted gearing and TOL/TNW remains healthy at 0.01 times and 0.1 times as on March 31, 2020. Its debt includes only working capital borrowings of Rs 2.8 crore as on March 31, 2020. The adjusted coverage indicators are also robust supported by healthy margins with interest coverage, Total Debt/OPBDITA and DSCR at 54.2 times, 0.1 times and 43.3 times in FY2020. Coverage indicators are likely to moderate in FY2021 due to decline in absolute margins but are expected to be adequate on the back of low financial expense.

Liquidity position: Strong

The company does not have any external term loans. It has healthy cash and liquid investment of ~Rs. 50.4 crore as November 30, 2020. It also has comfortable buffer in WC capital limits (Rs. 20-crore CC account) with average monthly utilisation at 10% for the 12-month period that ended in November 2020. It has another sanctioned CC account for Rs. 30 crore, which will further improve its liquidity position.

CAPITAL EXPENDITURE AND FUNDING PLANS

The company plans to open ~120 new stores every year

The company's expansion plan is to add ~120 new own stores every year. In the current year, the number of stores addition is expected to decline due to demand slow-down. Once the market condition stabilizes in FY2022, the company will proceed with the regular expansion plans. Till FY2019, capex was funded through the PE investments. In FY2020 and YTD FY2021, the capex was primarily funded by internal accruals. Going forward as well, the company has planned to fund the capex entirely through internal accruals.

BUSINESS & FINANCIAL OUTLOOK

With the lockdown announced by the Government of India from March 25, 2020 onwards to combat the spread of COVID-19, domestic apparel sales came to a complete halt and as a result, the domestic apparel sector witnessed significant turbulence during H1 FY2021. However, sales have improved over the recent past (since October 2020) with re-opening of stores and revival in demand during the festive season.

Given the nature of business, and high operating leverage, companies have undertaken some cost rationalisation measures such as employee base optimisation, pay cuts, promotional budget cuts and rental renegotiations to withstand the challenges. The immediate impact aside, even after the spread of the virus is contained, the sector is expected to witness a prolonged impact, with recovery likely to be gradual over several months. On the demand side, consumer scepticism to visit crowded places initially could keep footfalls subdued in offline retail over the medium-term.

EXHIBIT 2: Financial outlook

Parameters	ICRA's Comments
Revenue Growth	Revenue expected to decline in FY2021 due to loss of sales during lockdown and weak demand outlook. It is expected to improve from FY2022 onwards supported by store additions.
Profitability Indicators	Profitability is likely to decline in FY2021 due to low absorption of overhead cost and is expected to improve from FY2022 onwards.
Repayment Obligations	Nil
Capex Plans	Capex of Rs. 5 crore in FY2021 and ~Rs. 22-26 crore in FY2022-23 towards store additions. Funding: Internal accruals
Leverage and Coverage Indicators	Capital structure expected to remain healthy as company has not planned for any external term-loans. Coverage metrics are likely to weaken due to expected decline in OPM in FY2021 and are expected to improve from FY2022 onwards
Working Capital Intensity	Expected to remain to increase in FY2021 due decline in sales and improve from FY2022 onwards.
Liquidity	Expected to remain healthy on the back of healthy fund flow from operations, cash and liquid investment of ~Rs. 50.4 crore as November 30, 2020 and comfortable buffer in working capital limits.

PROMOTER AND MANAGEMENT PROFILE

The company was incorporated in 2010 by Mr Vinod Kumar Saraogi and Mr Prakash Kumar Saraogi. The promoters have over 30 years of experience in the textiles business. The day-to-day operations of the company is handled by Mr Prakash Kumar Saraogi (MD) and his son Mr. Gautam Saraogi (CEO). The company has had two rounds of private equity (PE) investment through 0.01% compulsory convertible cumulative preference share with the PE investors – Sequoia Capital India and ICICI Ventures, together having 42.5% of the fully diluted holdings in the company.

EXHIBIT 3: 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	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

ANNEXURE I: Past Financials (Audited)

In Rs. Crore	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue & Profitability Indicators					
Operating Income (OI)	64.9	114.9	188.7	285.2	393.6
Growth in OI (%)	-	77.1%	64.3%	51.1%	38.0%
OPBDITA	1.4	15.8	37.9	57.2	130.3
Profit After Tax (PAT)	1.3	8.0	20.9	36.5	52.6
Net Cash Accruals (NCA)	2.4	10.6	23.2	41.3	94.5
OPBDITA/OI (%)	2.2%	13.7%	20.1%	20.0%	33.1%
PAT/OI (%)	2.0%	7.0%	11.1%	12.8%	13.4%
ROCE (%)		18.6%	23.9%	23.3%	23.8%
Capitalisation & Coverage Indicators					
Short-term Debt	-	*6.7*	*2.6*	*8.3*	*2.8*
Long-term Debt	-	-	-	-	*206.8*
Total Debt	**-**	**6.7**	**2.6**	**8.3**	**209.6**
Tangible Net Worth (TNW)	68.2	76.3	197.1	233.9	286.3
Total Debt/TNW	-	0.1	0.0	0.0	0.7
Total Debt/OPBDITA	-	0.4	0.1	0.1	1.6
Interest Coverage	6.7	27.1	20.9	57.0	7.2
TOL/TNW	0.1	0.2	0.1	0.1	0.8
NCA /TD (%)		158%	908%	499%	45%
DSCR		19.3	13.8	42.3	6.3
Working Capital Indicators					
Debtor Days	78	76	56	50	49
Creditor Days	54	48	39	46	25
Inventory Days	228	142	148	156	169
NWC/OI (%)	56.8%	39.4%	35.2%	37.8%	42.2%
Cash Flow Analysis					
Fund Flows from Operations		10.2	23.9	42.8	91.9
Retained Cash Flows		2.3	1.9	0.6	36.0
Free Cash Flows		-10.6	-10.1	-25.3	-185.9

Source: *Company, ICRA research; Note: Amounts in Rs. Crore*

ANNEXURE III: Past Financials (Adjusted*)

In Rs. Crore	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue & Profitability Indicators					
Operating Income (OI)	64.9	114.9	188.7	285.2	393.6
Growth in OI (%)	-	77.1%	64.3%	51.1%	38.0%
OPBDITA	1.4	15.8	37.9	57.2	87.9
Profit After Tax (PAT)	1.3	8.0	20.9	36.5	61.8
Net Cash Accruals (NCA)	2.4	10.6	23.2	41.3	68.6
OPBDITA/OI (%)	2.2%	13.7%	20.1%	20.0%	22.3%
PAT/OI (%)	2.0%	7.0%	11.1%	12.8%	15.7%
ROCE (%)		18.6%	23.9%	23.3%	31.7%
Capitalisation & Coverage Indicators					
Short-term Debt	-	*6.7*	*2.6*	*8.3*	*2.8*
Long-term Debt	-	-	-	-	-
Total Debt	**-**	**6.7**	**2.6**	**8.3**	**2.8**
Tangible Net Worth (TNW)	68.2	76.3	197.1	233.9	294.0
Total Debt/TNW	-	0.1	0.0	0.0	0.0
Total Debt/OPBDITA	-	0.4	0.1	0.1	0.0
Interest Coverage	6.7	27.1	20.9	57.0	54.2
TOL/TNW	0.1	0.2	0.1	0.1	0.1
NCA /TD (%)		158%	908%	499%	2459%
DSCR		19.3	13.8	42.3	43.3
Working Capital Indicators					
Debtor Days	78	76	56	50	49
Creditor Days	54	48	39	46	25
Inventory Days	228	142	148	156	169
NWC/OI (%)	56.8%	39.4%	35.2%	37.8%	42.2%
Cash Flow Analysis					
Fund Flows from Operations		10.2	23.9	42.8	65.9
Retained Cash Flows		2.3	1.9	0.6	10.0
Free Cash Flows		-10.6	-10.1	-25.3	-17.1

Source: *Company, ICRA research; Note: Amounts in Rs. Crore; *ICRA has adjusted FY2020 financials without accounting for the impact of operating leases under INDS AS 116*

ANNEXURE IIII: Rating History for Past Three Years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Nov 30, 2020 (Rs. crore)	Rating	Date & Rating FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					20-Jan-2021	-	-	-
1	Cash Credit	Long-Term	30.0	-	[ICRA]A-(Stable)	-	-	-
2	Letter of Credit	Short-Term	35.0	0.0	[ICRA]A2+	-	-	-
3	Interchangeable	Long-Term/ Short-Term	(31.0)*	0.9	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-

*Amount in Rs. Crore; *Rs. 10-crore sub-limits to cash credit and Rs. 21 crore sub-limit to letter of credit facility*

ANNEXURE IV: Details of Rated Facility

ISIN NO	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	30.0	[ICRA]A-(Stable)
NA	Letter of Credit	NA	NA	NA	35.0	[ICRA]A2+
NA	Interchangeable	NA	NA	NA	(31.0)*	[ICRA]A-(Stable)/ [ICRA]A2+

Source: *Company data; *Rs. 10-crore sub-limits to cash credit and Rs. 21 crore sub-limit to letter of credit facility*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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