

Rating Rationale

January 29, 2024 | Mumbai

Indian Terrain Fashions Limited

Ratings downgraded to 'CRISIL BBB/Stable/CRISIL A3+'

Rating Action

Total Bank Loan Facilities Rated	Rs.80 Crore
Long Term Rating	CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+/Stable')
Short Term Rating	CRISIL A3+ (Downgraded from 'CRISIL A2')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities of Indian Terrain Fashions Limited (ITFL) to 'CRISIL BBB/Stable/CRISIL A3+' from 'CRISIL BBB+/Stable/CRISIL A2'.

The downgrade reflects weakening of business risk profile owing to slowdown in demand and closure of boys wear segment. The company reported operating income of Rs.232.64 crores for the half year through September 2023 which is an 8 percent decline. Earnings before interest, taxes, depreciation, and amortization (EBITDA) declined to less than 8% during the same period; the EBITDA margin was 12.3% for fiscal 2023. The decline in profitability is largely attributable to inventory liquidation pertaining to the boys wear segment. Such liquidation is expected to continue in the ongoing quarter as well, resulting in continued stress on operating performance.

The rating action also reflects weakening of financial profile due to lower accruals. The improvement in operating performance in the ensuing quarters and the resultant improvement in financial profile will remain a key rating monitorable.

The rating also reflects ITFL's strong market position supported by extensive industry experience of the promoters and a comfortable financial profile. These strengths are partially offset by working capital intensive operations and vulnerability to changes in fashion trends and competition.

<u>Key Rating Drivers & Detailed Description</u> Strengths:

- Strong market position supported by extensive industry experience of the promoters: ITFL retails readymade garments for men and boys, driven by its flagship brand, 'Indian Terrain', through its own stores, franchisees, multibrand retail outlets and large format retail counters such as Shoppers Stop Ltd (CRISIL A1+) and Lifestyle International Pvt Ltd (CRISIL AA+/Stable/CRISIL A1+). The company has a wide presence across India, mostly dominated in southern region, with total stores count of 232 as of March 2023. EBO revenue (Exclusive Brand Outlet) contributes the highest to the total revenue at around ~51% in fiscal 2023. ITFL plans to expand its retail network to Tier 2 and Tier 3 cities by opening 30-33 more stores yearly, which will drive the overall growth and market position of the company. Further, the promoters have an experience of over three decades in apparel retail industry. This has given them an understanding of the dynamics of the market and enabled them to establish relationships with suppliers and customers.
- Comfortable financial profile: ITFL's capital structure have been at moderate healthy level due to limited reliance on external funds yielding gearing of 0.25 and total outside liabilities to adj tangible networth (TOL/ANW) of 1.46 for year ending on 31st March 2023. The interest coverage and net cash accrual to total debt (NCATD) ratio are at 2.22 times and 0.57 times for fiscal 2023. ITFL debt protection measures are expected to improve over the medium term with healthy accretions.

Weaknesses:

- Working capital intensive operations: Gross current assets were at 284 494 days over the three fiscals ended March 31, 2023. The extensive working capital requirement is reflected in gross current assets (GCA) of 284 days as on March 31, 2023. Its large working capital requirements arise from its high debtor due to its business with Large Format Stores (LFS) and e-commerce partners. Furthermore, due to its business need, it holds large work in process & inventory. Any sharp increase in working capital requirement that might impact on the liquidity of the company would remain key rating monitorable.
- Vulnerability to changes in fashion trends and competition: ITFL's business is driven by fashion trends and its
 target segment's aspirations are significantly influenced by peers, role models, and the media. The operations also
 remain exposed to competition from a number of other domestic and global brands. The business of selling branded

apparels is driven by fashion trends, particularly in the urban regions and among consumers in the age group of 18-40 years. Thus, players such as ITFL need to constantly innovate and adapt to the changing preferences of the target segment. Currently, 90% of revenues of ITFL comes from the men's category with major contribution from Shirts, Trousers, T-Shirts and Denimwear which is partially mitigated by the long-standing presence in the industry.

Liquidity: Adequate

Bank limit utilisation is high at around 92 percent for the past twelve months ended November-23. Cash accruals are expected to be over Rs 29 crore sufficient for repayment obligation of Rs.2.50 crore over the medium term. Also, the company maintains liquid assets to the tune of Rs. 16.71 crore to support exigencies.

Current ratio stood at 2.04 times on March 31, 2023. Low gearing and moderate net worth support its financial flexibility and provides the financial cushion available in case of any adverse conditions or downturn in the business.

Outlook: Stable

CRISIL Ratings believe ITFL will continue to benefit from its strong market position supported by the extensive experience of its promoter, and established relationships with clients.

Rating Sensitivity Factors Upward factors:

- Sustained growth in revenues and sustenance of operating margin at over 10% leading to higher cash accruals.
- Improvement in interest coverage and sustenance of capital structure.

Downward factors:

- Substantial decline in revenue or profitability margin below 5.5% leading to lower net cash accrual.
- Stretch in working capital adversely impacting liquidity.

About the Company

Incorporated in September 2009, ITFL retails ready-made garments for men and boys, such as shirts, trousers, T-shirts, jackets, and sweaters under the Indian Terrain brand. The domestic retail division of Celebrity Fashions Ltd (CFL, rated at CRISIL BB/Stable/CRISIL A4+) was demerged into ITFL with effect from April 1, 2010. The company has more than 200 exclusive brand outlets with a mix of company operated and franchise operated outlets along with 1000+ multi brand outlets, 400+ doors of large format stores and 5+ E-commerce partners.

ITFL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company is promoted by Mr. Venkatesh Rajagopal (Chairman & Whole Time Director) along with family. Managing director, Mr. Charath Narsimhan, manages the day-to-day operations.

Key Financial Indicators

As on/for the period ended March 31	Unit	2023	2022
Operating income	Rs.Crore	503.65	337.18
Reported profit after tax	Rs.Crore	10.50	-7.73
PAT margins	%	1.41	-0.65
Adjusted Debt/Adjusted Networth	Times	0.25	0.25
Interest coverage	Times	2.22	1.48

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings` complexity levels please visit <u>www.crisilratings.com</u>. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

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ISIN	Name of the instrument	Date of Allotment		Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	55	NA	CRISIL BBB/Stable
NA	Foreign Exchange Forward	NA	NA	NA	0.2	NA	CRISIL A3+
NA	Letter of Credit	NA	NA	NA	8	NA	CRISIL A3+
NA	Proposed Cash Credit Limit	NA	NA	NA	5	NA	CRISIL BBB/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	0.28	NA	CRISIL BBB/Stable
NA	Standby Letter of Credit	NA	NA	NA	5	NA	CRISIL A3+
NA	Term Loan	NA	NA	Mar-27	6.52	NA	CRISIL BBB/Stable

Current	2024 (History)	2023	2022	2021	Start of	
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Instrument	Туре	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	67.0	CRISIL A3+ / CRISIL BBB/Stable			11-08-23	CRISIL BBB+/Stable / CRISIL A2					Withdrawn
Non-Fund Based Facilities	ST	13.0	CRISIL A3+			11-08-23	CRISIL A2					Withdrawn

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	55	State Bank of India	CRISIL BBB/Stable
Foreign Exchange Forward	0.2	State Bank of India	CRISIL A3+
Letter of Credit	8	State Bank of India	CRISIL A3+
Proposed Cash Credit Limit	5	Not Applicable	CRISIL BBB/Stable
Proposed Long Term Bank Loan Facility	0.28	Not Applicable	CRISIL BBB/Stable
Standby Letter of Credit	5	State Bank of India	CRISIL A3+
Term Loan	6.52	State Bank of India	CRISIL BBB/Stable

Criteria Details

Links	to	related	criteria
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CRISILs Approach to Financial Ratios

CRISILs Bank Loan Ratings - process, scale and default recognition

Rating Criteria for Retailing Industry

CRISILs Criteria for rating short term debt

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