April 07, 2022

Go Fashion (India) Limited: Ratings upgraded to [ICRA]A(Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based Facility - Cash Credit	30.00	65.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Short Term Non-fund based Facilities - Letter of Credit	35.00	0.00	-
Long-term/Short-term – Interchangeable Limits	(31.00)	0.00	-
Short term – Interchangeable Limits#	0.00	(65.00)	[ICRA]A1; upgraded from [ICRA]A2+
Total	**65.00**	**65.00**	

**Instrument details are provided in Annexure-1; # - sublimit of Cash Credit facility*

Rationale

The ratings upgrade reflects the expected steady improvement in the performance of Go Fashion India Limited (GFIL) over the medium term, backed by its strong market position in the domestic women's bottom wear segment. Besides, GFIL has a healthy financial profile, characterised by strong capitalisation levels and liquidity position, further strengthened by the equity infusion of Rs. 125 crore made through the initial public offering (IPO) in November 2021. Post the pandemic-induced business disruptions in FY2021, GFIL's business performance improved in the current fiscal, driven by its established brand and better demand conditions (registering around 77% YoY revenue growth in 9M FY2022). ICRA expects GFIL's revenue to witness a 10% CAGR over the medium term, driven by steady demand and continued diversification measures with around 120 exclusive brand outlets (EBOs) proposed to be added every year in the coming fiscals. Further, backed by its store operating efficiency, better economies of scale and improving revenue contribution from the higher-margin EBO channel, the operating margins have recovered to ~30% in FY2022 and are likely to remain at similar strong levels in the coming fiscals.

GFIL's financial profile remains comfortable, backed by its steady earnings from operations, which has been utilised towards meeting working capital requirements with low dependence on external debt. Further, given the healthy cash accruals envisaged and the recent fund infusion, GFIL's credit metrics and liquidity position are expected to remain strong despite the funding requirements towards capital expenditure and incremental working capital requirements (on the back of proposed store additions). The ratings also positively factor in GFIL's healthy operational profile, 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 also factor in GFIL's presence in an intensely competitive segment (which limits pricing flexibility to an extent and exposes its earnings to fluctuations in raw material prices), and high working capital requirements inherent in the retail segment.

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 levels.

Key rating drivers and their description

Credit strengths

Established market position – Incorporated in FY2010, 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 476 exclusive brand outlets (EBOs), as well as 1,330 large format store (LFS) outlets as on December 31, 2021. GFIPL derives the major portion of its revenue (72% in 9M FY2022) from its own stores, 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 risk profile – GFIL's financial profile remains strong, backed by a conservative capital structure and healthy coverage metrics on the back of consistent earnings from operations generated over the years. GFIL's gearing remained low at 0.8 times in FY2021 and is expected to improve further to around 0.6 times by March 2022 with the earnings generated and equity infusion made during the fiscal. GFIL's coverage metrics have remained comfortable with an improvement in operating profits witnessed in FY2022, with the interest cover standing at around 5.0 times in 9M FY2022. Given its healthy liquidity and expected steady earnings from operations coupled with lack of any major capital expenditure, ICRA expects GFIL's dependence on external debt to remain minimal. GFIL's capital structure and credit metrics are estimated to remain strong over the medium term.

Credit challenges

High working capital intensity – GFIL operates in a working-capital intensive retail segment, characterised by high stock levels owing to its wide product portfolio. GFIL's receivables stood at around 60 days and its inventory days remained high in the range of 150-180 days over the last three years. GFIL's working capital cycle is expected to improve over the medium term, backed by better demand conditions and higher revenue contribution from the EBO channel. Despite its high working capital intensity, GFIL's credit profile derives comfort from its strong coverage metrics and liquidity position, with minimal dependence on external borrowings and its working capital requirements being funded through accruals.

Exposure to consumer spending trends and intense competition – GFIL's sales, profitability and cash accruals, like any other apparel retailer, are closely linked to macro-economic conditions, consumer confidence and spending patterns. Further, intense competition with the presence of various branded and unbranded players in the women's bottom wear market exposes GFIL's profitability to limited pricing flexibility and fluctuations in raw material prices.

Liquidity position: Strong

GFIL's liquidity position is expected to remain strong, supported by steady earnings from operations, large cash and liquid investment holdings and adequate unutilised lines of credit. GFIL enjoyed free cash reserves, including liquid investments of more than Rs. 150 crore at the end of December 2021, apart from its unutilised working capital limits (utilisation levels over the 12-month period ended in November 2021 stood negligible at around 1% of its sanctioned limits). GFIL's cash accruals are expected to be adequate to meet the funding requirements for expansion and the resultant incremental working capital requirements, with the surplus cash reserves lending comfort.

Rating sensitivities

Positive factors – The ratings may be upgraded if GFIL is able to register a sustained healthy growth in revenues and earnings, while maintaining comfortable debt protection metrics and liquidity position. Specific metrics which ICRA could monitor include core return on capital employed improving to more than 18% on a sustained basis.

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 coverage metrics and liquidity position of the company.

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	The ratings are based on the standalone financial profile of the entity.

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 476 EBOs and around 1,330 large format stores. The company was listed on the Bombay Stock Exchange and the National Stock Exchange in November 2021 with the promoter and promoter group holding around 53% stake in the company as on December 31, 2021.

Key financial indicators (Audited)

	FY2020	FY2021	9M FY2022
Operating Income (Rs. crore)	392.0	250.7	285.1
PAT (Rs. crore)	52.6	-3.5	23.3
OPBDITA/OI (%)	33.2%	20.0%	28.5%
PAT/OI (%)	13.4%	-1.4%	8.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.9	*
Total Debt/OPBDITA (times)	1.6	4.6	*
Interest Coverage (times)	7.2	2.3	4.9

*Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * - Data not available*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					April 07, 2022	-	Jan 20, 2021	-
1	Cash Credit	Long term	65.00	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	-
2	Letter of Credit	Short term	-	-	-	-	[ICRA]A2+	-
3	Interchangeable Limits	Long/Short term	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	-
4	Interchangeable Limits	Short term	(65.00)	-	[ICRA]A1	-	-	-

Source: Company; Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund based Facility - Cash Credit	Simple
Short term – Interchangeable Limits	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

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	65.00	[ICRA]A(Stable)
NA	Interchangeable Limits*	NA	NA	NA	(65.00)	[ICRA]A1

Source: *Company; * - sublimit of Cash Credit facility*

Please click here to view details of lender-wise facilities rated by ICRA

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

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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.

For more information, visit www.icra.in

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