July 27, 2023 (Revised)

Go Fashion (India) Limited: Ratings upgraded to [ICRA]A+ (Stable)/ [ICRA]A1+, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based Facility - Cash Credit	65.00	69.00	[ICRA]A+ (Stable) upgraded from [ICRA]A (Stable)/ assigned
Short term – Interchangeable Limits	(65.00)	0.0	-
Short term – Non-fund based	-	156.00	[ICRA]A1+; upgraded from [ICRA]A1/ assigned
Total	**65.00**	**225.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade factors in the sustained healthy growth in the top line of Go Fashion (India) Limited (GFIL) while maintaining healthy margins. ICRA expects the company to maintain a healthy growth in the top line in the near term, while maintaining the margins. The growth has been supported by its strong market position in the domestic women's bottom wear segment as well as its continuous focus on widening its market presence through continuous store additions. GFIL has a healthy financial profile, characterised by its strong capitalisation levels and liquidity position, in the absence of any external debt on books. ICRA expects GFIL's revenue to witness a steady growth of 10-15% over the medium term, driven by the large untapped and large unorganised market, and continued diversification measures with around 120-130 exclusive brand outlets (EBOs) proposed to be added every year in the coming fiscals.

Further, backed by its operating efficiency, better economies of scale and improving revenue contribution from the higher-margin EBO channel, the operating margins have improved in last two fiscals 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 have been utilised for meeting working capital requirements with low dependence on external debt. Further, given the healthy cash accruals envisaged, 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 consider GFIL's presence in an intensely competitive segment (which limits the 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 level.

Key rating drivers and their description

Credit strengths

Established market position – Incorporated in 2010, 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 630 exclusive brand outlets (EBOs), as well as 1,750 large format store (LFS) outlets as on March 31, 2023. GFIPL derives the major portion of its revenue (~74% in FY2023) from their 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 profile and healthy coverage metrics – Post the pandemic-induced business disruptions in FY2021, the company has been able to scale up its operations at a healthy pace in the last two fiscals, reporting a YoY revenue growth of ~60% and ~66% in FY2022 and FY2023, respectively, along with an improvement in the operating margin. The operating margin continued to improve in FY2023 despite an increase in raw material prices during the year. The company's capital structure and debt protection metrics continue to be strong, supported by healthy profitability and no dependence on external debt. It reported a gearing of 0.7 times and TOL/ TNW of 0.7 times as on March 31, 2023. The interest cover stood at 7.5 times and Total Debt[1]/ OPBDITA stood at 1.6 times in FY2023. The DSCR stood comfortable at 1.9 times in FY2023. The liquidity position also remains strong, as indicated by cash and cash equivalents of ~Rs. 134.0 crore as on March 31, 2023. With steady demand conditions and continuous store additions, the company is expected to report a revenue growth of 10-15% in the coming fiscals along with healthy profit margins.

Credit challenges

High working capital intensity – GFIL operates in a working capital intensive retail segment, characterised by high stock levels, given its wide product portfolio. GFIL's receivables have been in the range of 40-70 days and inventory days have remained high in the range of 170-250 days over the last three years. Despite the high working capital intensity, GFIL's credit profile derives comfort from its strong coverage metrics and liquidity position, with minimal dependence on external borrowings. Its working capital requirements are funded through internal accruals.

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

Liquidity position: Strong

GFIL's liquidity position is expected to be strong over the coming quarters, supported by steady earnings from operations, large cash and liquid investment holdings and healthy unutilised lines of credit. GFIL enjoyed free cash reserves, including liquid investments of ~Rs. 134 crore at the end of March 2023, apart from its unutilised working capital limits (utilisation of fund-based limits remained nil). GFIL's cash accruals are expected to meet any funding requirements for expansion and the resultant incremental working capital requirements, with the surplus cash reserves lending comfort.

[1] *This comprises entirely lease liabilities in line with Ind AS 116*

Rating sensitivities

Positive factors – The long-term rating may be upgraded if GFIL is able to register a significant growth in revenues while maintaining a strong profitability profile, comfortable debt protection metrics and healthy liquidity position.

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. Specific metrics for a rating downgrade include the interest cover remaining below 5.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Indian Textiles Industry – Apparels]
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

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 630 EBOs and around 1,750 large format stores. The company was listed on the Bombay Stock Exchange and the National Stock Exchange in November 2021 with the promoter and the promoter group holding around 53% stake in the company as on March 31, 2023.

Key financial indicators

GFIL	FY2021	FY2022	FY2023
	Audited	Audited	Abridged
Operating income	250.7	401.3	665.3
PAT	(3.5)	35.6	82.8
OPBDIT/OI	20.0%	30.7%	31.9%
PAT/OI	(1.4%)	8.9%	12.4%
Total outside liabilities/Tangible net worth (times)	0.9	0.7	0.7
Total debt/OPBDIT (times)	4.6	2.0	1.6
Interest coverage (times)	2.3	4.9	7.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Apr 30 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					July 27, 2023	Apr 07, 2022	-	Jan 20, 2021
1	Cash Credit	Long term	69.00	--	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Stable)
2	Letter of Credit	Short term	156.00	--	[ICRA]A1+	-	-	[ICRA]A2+
3	Interchangeable Limits	Long term/ Short term	-	--	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+
4	Interchangeable Limits	Short term	-	--	-	[ICRA]A1	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short-term non-fund based – Letter of Credit	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	69.00	[ICRA]A+ (Stable)
NA	**Letter of Credit**	NA	NA	NA	156.00	[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

Corrigendum:

Rationale dated July 27, 2023 has been corrected with revisions as detailed below:

In Analytical Approach section on page 4, in applicable rating methodologies, methodology for retail was mentioned instead of apparels. The same has been corrected on page 4 of the document.

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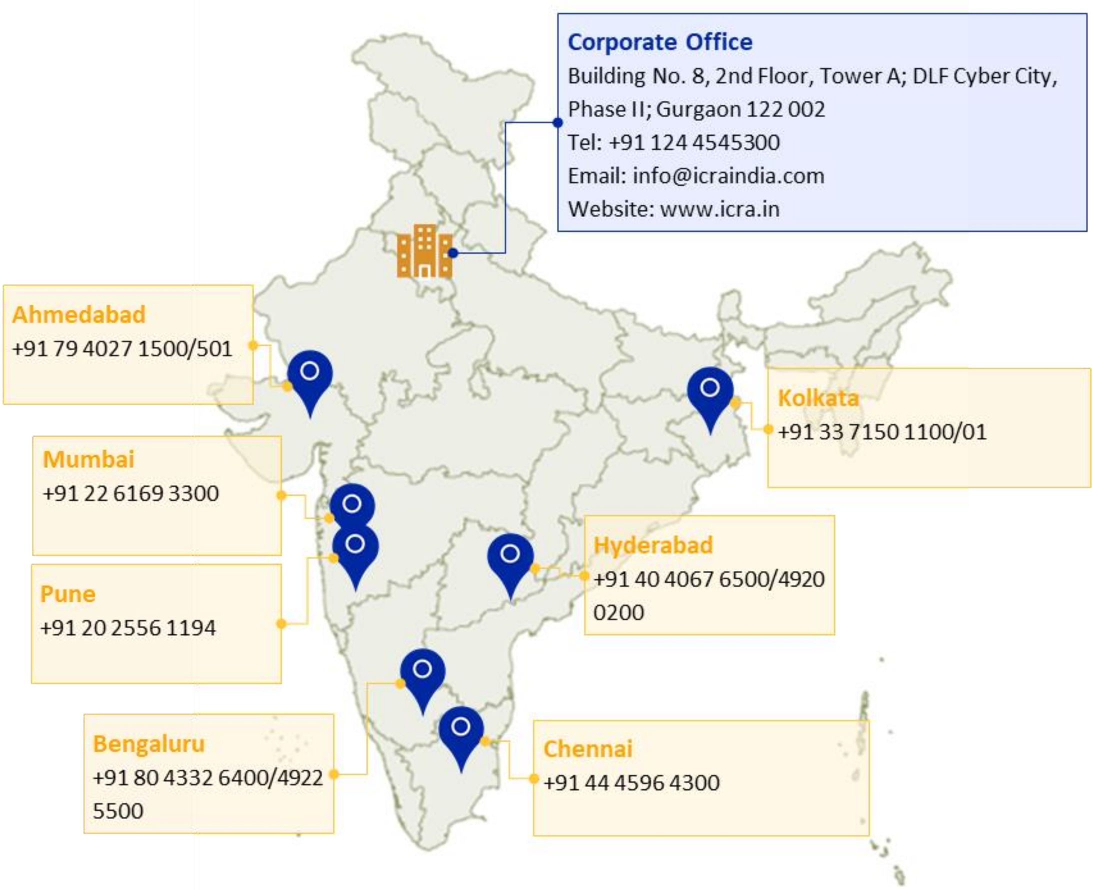

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