



ITFL/SEC/2020-21/JUL/02

23rd July, 2020

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra-Kurla Complex,
Bandra (East), Mumbai- 400 051

Scrip Code - 533329

NSE Symbol: INTERRAIN

Dear Sir/Madam,

Sub.: Intimation of revision in Credit ratings

Ref.: Reg.30 of SEBI (LODR) Regulations, 2015

This is to inform that ICRA Limited has revised the ratings on the Bank facilities availed by the Company as detailed below.

Total Bank facilities rated : Rs.60.00 Crores

Rating on Long-Term scale : [ICRA] BBB+ (Negative)

Rating on Short-Term scale : [ICRA] A2

The report of ICRA Limited dated 20th July, 2020 for revision of the credit ratings along with the rating rationale is enclosed.

This is for your information and records. Kindly acknowledge the receipt of the same.

Thanking you,

Yours faithfully,

For **INDIAN TERRAIN FASHIONS LIMITED**

Ravi B.S.G
Company Secretary & Compliance Officer

Encl.: As above



ICRA

ICRA Limited

Ref: ICRA:BLR:2020-2021/RT-BASEL/216

July 20, 2020

Mr. Charath Ram Narsimhan
Managing Director
Indian Terrain Fashions Limited,
SDF IV & C2, 3rd Main Road,
MEPZ / Special Economic Zone,
Tambaram, Chennai,
Tamil Nadu – 600 045

Dear Sir,

Re: Surveillance of ICRA-assigned Credit Rating for the Rs. 60.00 crore Lines of Credit of Indian Terrain Fashions Limited (instrument details in *Annexure*)

Please refer to the Rating Agreement dated March 29, 2019 and the RRF No. BLR/2018-19/315 dated March 29, 2019 between ICRA Limited (“ICRA”) and your company, whereby, ICRA is required to review the ratings assigned to your company on an annual basis or as and when the circumstances so warrant.

Please note that the Rating Committee of ICRA, after due consideration, has downgraded the long-term rating for the captioned Line of Credit (LOC) to **[ICRA]BBB+** (pronounced ICRA triple B plus)[†] from **[ICRA]A-** (pronounced ICRA A minus). The Rating Committee of ICRA has also downgraded the short-term rating for the captioned LOC to **[ICRA]A2** (pronounced ICRA A two) from **[ICRA]A2+** (pronounced ICRA A two plus). The Outlook on the long-term rating is **Negative**.

The aforesaid ratings will be due for surveillance anytime before June 30, 2021.

The rating(s) assigned must be understood solely as an opinion and should not be treated, or cause to be treated, as recommendation to buy, sell, or hold the rated bank facility availed by your company.

The ratings as stated above are specific to the terms and conditions of the LOC as indicated to us by you. In case there is any change in the terms and conditions, or the size of the rated LOC, the same must be brought to our notice immediately. Any such change would warrant a rating review, following which there could be a change in the ratings assigned. Notwithstanding the foregoing, any change in the overall limit of the LOC from that specified in the first paragraph of this letter would constitute an enhancement that would not be covered by or under the said Rating Agreement.

[†] For complete rating definition please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications



ICRA reserves the right to review and/or, revise the above rating at any time on the basis of new information or unavailability of information or such other circumstances, which ICRA believes, may have an impact on the rating assigned to you.

You are requested to furnish a monthly '*No Default Statement (NDS)*' (in the format enclosed) on the first working day of every month, confirming the timeliness of payment of all obligations against the rated debt programme [interest and principal obligations for fund based as well as obligations under LOC/BG for non-fund based facility]. This is in accordance with requirements prescribed by the Securities and Exchange Board of India ("SEBI") vide circular dated June 30, 2017.

You are also requested to inform us forthwith of any default or delay in the payment of interest and/or principal against the rated debt programme, or any other debt instruments and/or borrowings of your company. Further, you are requested to keep us informed of any other developments that could have a direct or indirect impact on the debt servicing capability of your company, with such developments including, but not limited to, any proposal for re-schedulement or postponement of repayment against any dues and/or debts of your company with any lender(s) and/or investor(s).

We thank you for your kind co-operation extended during the course of the rating exercise. Please let us know if you need any clarification.

We look forward to further strengthening our existing relationship and assure you of our best services.

With kind regards,

Yours sincerely,

for ICRA Limited

Jayanta Roy
Senior Vice President
jayanta@icraindia.com



'No Default Statement on the Company Letter Head'

To,

ICRA Limited
Building No. 8, 2nd Floor, Tower A,
DLF Cyber City, Phase II, Gurugram -122002

Dear Sir/ Madam,

1. We hereby confirm that as on date there are no overdues or default on our listed debt obligations. (Securities).
2. We hereby confirm that as on date there are no overdues or default on our unlisted debt obligations. (Securities).
3. We also confirm that in the month ended <<Month and Year name>>, there has been no instance of delay in servicing of our listed debt obligations (Securities).
4. We also confirm that in the month ended <<Month and Year name>>, there has been no instance of delay in servicing of our un-listed debt obligations(Securities).
5. We also confirm that in the month ended <<Month and Year name>>, there has been no instance of delay in servicing of debt obligations guaranteed by us.
6. We hereby confirm that as on date and in the month ended <<Month and Year name>> there are no over dues or default on payment of interest/installment obligations on loans from banks/financial institutions.
7. We hereby confirm that as on date there are no over dues or default on payment of interest/installment obligations on loans from banks/financial institutions which continues beyond 30 days.
8. We hereby confirm that as on date there are no over dues or default on revolving facilities like cash credit, from banks/financial institutions which continues beyond 30 days.
9. We also confirm that there is no amount remaining unpaid for more than 30 days from the invocation of the bank guarantee facilities or devolvement of Letters of Credit as on date / in the month ended <<Month and Year name>> We also confirm that there has not been any instance of devolvement of Letter of Credit in the month ended <<Month and Year name>>
10. We also confirm that there has been no overdrawing of the drawing power sanctioned by the bank for a period of more than 30 consecutive days in case of bank facilities which do not have scheduled maturity/repayment dates.
11. Details of default in payment of interest/installment obligations on loans including revolving facilities like cash credit from banks/financial institutions and any overdrafts beyond what is sanctioned by the bank, beyond 30 days as on date/ in the month ended <<Month and Year name>>, in any of the above case (if any):

Name of Lender	Nature of obligation	Date of Default	Current default amount	Amount to be paid	Actual Date of Payment (if any)	Remarks
Text	Term Loan, CC					
.						
Row 2						



12. Details of default in payment of principal/interest obligations as on date/ in the month ended <<Month and Year name>>, on our listed and unlisted debt obligations (Securities), in any of the above case (if any):

Name of the Instrument	ISIN	Amount to be paid	Due Date of Payment	Actual Date of Payment	Remarks
NCD					

Thanking You,

Yours faithfully,

<Authorized Signatory of Issuer>

Annexure
Details of Bank Limits Rated by ICRA (Rated on Long-Term Scale)

Name of the Bank	Instrument	Amount (Rs. crore)	Rating	Rating Assigned on
State Bank of India	Cash Credit	30.00	[ICRA]BBB+(Negative)	July 20, 2020
Total		30.00		

Details of Bank Limits Rated by ICRA (Rated on Short-Term Scale)

Name of the Bank	Instrument	Amount (Rs. crore)	Rating	Rating Assigned on
State Bank of India	Stand by Line of Credit (SLC)*	5.50	[ICRA]A2	July 20, 2020
	Adhoc WC Limit	6.00		
	Covid-19 emergency credit line	2.00		
	LC (WC)	8.00		
	BG (sub limit under LC)	(0.50)		
Total		21.50		

**SLC limit can be used as Fund Based as well as Non-Fund Based limit*

Details of the limits rated by ICRA (Rated on long-term/short-term scale)

Instrument Details	Amount (Rs. Cr.)	Rating Assigned	Rating Assigned on
Unallocated Limits	8.50	[ICRA]BBB+(Negative)/ [ICRA]A2	July 20, 2020
Total Limits	8.50		

July 20, 2020

Indian Terrain Fashions Limited: Ratings downgraded to [ICRA]BBB+(Negative)/[ICRA]A2

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	30.00	[ICRA]BBB+(Negative); downgraded from [ICRA]A-(Negative)
Short-term fund-based Working Capital Facilities	11.50	13.50	[ICRA]A2; downgraded from [ICRA]A2+
Short-term non-fund-based Working Capital Facilities	8.00	8.00	[ICRA]A2; downgraded from [ICRA]A2+
Unallocated limits	10.50	8.50	[ICRA]BBB+(Negative)/ [ICRA]A2; downgraded from [ICRA]A-(Negative)/ [ICRA]A2+
Total	60.00	60.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action considers the weaker-than-expected operating performance of Indian Terrain Fashions Limited (ITFL) in the recent quarters on the back of demand slowdown witnessed in the domestic apparel retail industry, and the continued pressure on the operating performance expected in the near term, following the Covid-19 pandemic. While ITFL's performance in the first nine months of FY2020 was largely stable, a sharp drop in revenue from the high contribution sales channels in March 2020 because of the pandemic, higher discounts extended, an increase in marketing expenses and fixed costs incurred during the major portion of the quarter resulted in a significant decline in revenues and high operating losses in Q4 FY2020. The same resulted in a revenue decline of around 12.5% in FY2020, with the operating margins¹ reducing significantly to around 2.5% in the fiscal (from 12.0% in FY2019). Lower earnings along with firm working capital debt levels, given the increase in working capital funding requirements, have also resulted in a deterioration in credit metrics and a reduction in cash reserves held by the company.

The weak performance continued in the current fiscal with the business disruptions witnessed in Q1 FY2021 because of the lockdown, resulting in nominal sales made during the quarter. While a considerable portion of ITFL's stores have resumed operations in the recent weeks, the sales volumes have remained low. The performance continues to be limited by periodic lockdown imposed across its key markets by the respective state governments and a sharp reduction in footfalls witnessed across the channels because of the pandemic. Thus, revenues are expected to register a sharp YoY decline of around 50% in Q2 FY2021. ITFL is also likely to witness losses at the operating level in the first half of the fiscal, despite the cost reduction measures undertaken including renegotiation of rentals, reduction in employee costs and minimal marketing related expenses. Retail volumes are likely to recover in the second half of the current fiscal, especially in the tier-2 and tier-3 markets from where ITFL generates a considerable portion of its revenues. The expected improvement in performance is also likely to be supported by the planned new product launches, coupled with a healthy brand equity enjoyed by the 'Indian Terrain' brand. Better revenues are also likely to support profitability in the

¹ As per erstwhile IGAAP (Adjusted for IND AS 116 impact)

second half of FY2021, with an expected operating margin of 8% in H2 FY2021. As a result, ITFL is likely to witness a revenue decline of more than 30% and net losses in the current fiscal, with the company anticipated to break even at the operating level. Further, post the cash losses expected in H1 FY2021, the coverage metrics are also expected to improve in the second half of the fiscal, given the likely improvement in earnings.

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, with continued high receivables expected, 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 high funding requirements, ITFL's liquidity position remains at adequate levels. ITFL has availed moratorium on scheduled payment obligations from its lenders between March 2020 to August 2020, a part of the Covid-19 regulatory package announced by the Reserve Bank of India (RBI), to support its cash flows. With the expected high funding requirements, ITFL's ability to maintain a comfortable liquidity position will remain a key rating monitorable. 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 men's wear 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 and are likely to remain at similar levels, going forward.

Credit challenges

Sharp decline in revenues and profitability expected in FY2021 on account of the demand slowdown because of 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 is likely to remain 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 remains adequate, supported by free cash reserves and liquid investments held of around Rs. 16 crore as on June 30, 2020 (down from ~Rs. 24 crore as on March 31, 2020 and ~Rs. 35 crore as on March 31, 2019). Losses from operations coupled with high working capital funding requirements resulted in an increase in the working capital debt levels and reduction in cash reserves in the recent months. Despite the incremental funding requirements expected in the second half of the fiscal, ICRA expects ITFL’s liquidity position to remain adequate given the cash reserves held, proposed enhancement of its fund-based working capital limits and likely fund infusion from promoters, if required.

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 its working capital cycle elongates further, 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

	Type	Rating (FY2021)		Rating History for the Past 3 Years				FY2019	FY2018
		Amount Rated	Amount Outstanding	Current Rating	8-May-2020	FY2020	20-Aug-2020		
1	Fund based- Cash Credit	Long Term	30.00	-	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-	-
2	Fund-based – Working Capital limits	Short term	13.50	-	[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+	-
4	Unallocated / Proposed limits	Long term/ Short Term	8.50	-	[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 www.icra.in

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	-	-	-	30.00	[ICRA]BBB+(Negative)
NA	Standby line of credit	-	-	-	5.50	[ICRA]A2
NA	Ad-hoc WC limit	-	-	-	6.00	[ICRA]A2
NA	Covid lines	-	-	-	2.00	[ICRA]A2
NA	LC (WC)	-	-	-	8.00	[ICRA]A2
NA	Unallocated	-	-	-	8.50	[ICRA]BBB+(Negative) / [ICRA]A2

Source: ITFL

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

ANALYST CONTACTS

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Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

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