

Disappointing and expected; Brace for Impact as Q1FY21 is almost washout

CMP: Rs 33

Rating: Unrated

Stock Info

BSE	533329
NSE	INDTERRAIN
Bloomberg	ITFL IN
Reuters	ITFL NS
Sector	Textile
Face Value (Rs)	2
Equity Capital (Rs Cr)	7.59
Mkt Cap (Rs Cr)	126
52w H/L (Rs)	137 / 23

Shareholding Pattern %

(As on March, 2020)

Promoters	30.1
FII	12.0
DII	26.9
Public & Others	31.0

Stock Performance (%)	3m	6m	12m
ITFL	-51.3	-60.1	-78.7
Nifty 50	-22.9	-20.8	-15.8

Indian Terrain brand of men's casual clothing was started by its current Executive Chairman Mr Venky Rajagopal in 2000. Indian Terrain demerged from its parent Celebrity Fashions Limited in 2010 to become what is known as Indian Terrain Fashion Limited (ITFL). ITFL makes mid-premium range men's clothings and apparels, particularly focussed on casual urban men & boys. It had 180 EBOs, 1400+ MBOs, 17 factory outlets, 425+ departmental store selling points and tie-up with 8+ e-commerce partners, for its reach to consumers.

Business Update of last quarter, FY20 and Covid-19 impact:

ITFL performance for the Q4FY20: The company's revenue fell to Rs 78 Cr (Rs 92 Cr in Dec 2019 and Rs 119 Cr in Q4FY19), EBITDA at Rs -12 Cr (Rs 12.3 Cr in Q3FY20 and Rs 12.6 Cr in Q4FY19) and a net loss of Rs 18.67 Cr (first time over last 4 years). The company used to have good earnings in those quarters when the trading of purchased goods went up historically.

ITFL performance for the FY20: Revenue fell short over last year at Rs 370 Cr (down 12.4%), EBITDA fell to Rs 28.3 Cr (down 44.4%) and an annual loss at Rs 10.3 Cr.

Credit Rating revision: ICRA reaffirmed its credit rating for the overall borrowings of the company (Rs 60 Cr Line of Credit). The rating agency reaffirmed the long term rating at ICRA A-, downgrading the outlook on long term from stable to negative while reaffirmed the short term rating at ICRA A2+.

Resignation of CFO & Appointment of new CFO and Joint MD: The resignation of previous CFO in the middle of last quarter was a red flag for the company in the near term considering its rising liabilities as well as other non-current assets. With the current corona pandemic hitting apparels industry, the appointment of a young Joint MD may turnaround the business strategic focus in the future.

Massive impact of Covid-19: ITFL is in the business of mid-premium clothing for men for casual clothing which is a highly competitive segment in the apparel industry due to the un-organised players and cheap Chinese imports. With the advent of Covid-19, and the masses avoiding leisure and casual places of social gatherings even after the lockdown, will play a check on the sale of ITFLs products.

Business Outlook & Valuation

ITFL has not been able to capitalize on the expanded store reach across the country due to several constraints like, single gender focus, single line of clothing wears, etc. On the branding front, the company has been able to rope in fashion icons due to the paltry expense towards advertising (Rs 18.77 Cr for FY19), which is less than 10% of the revenue and very unlikely among fashion brands. Also, the product pricing of Indian Terrain is not fully justified (the mid premium pricing range) with the product line offering where unorganised players are abundant. Until the company starts rolling out other product lines from its house, we do not see much of a recovery for this brand to take off post corona. At current times, with healthy reserves of Rs 209 Cr, we expect the company to sail through this crisis, but remain cautious with the nature of the business model, stagnated with similar lines of clothing to offer within itself. We expect to see the earnings of the company decline sharply as guided by the company (80-85% down against last year sales in Q1FY21), while even post Corona crisis with the way business is going on, we refrain from investment rating on the stock.

Quarterly Performances (Rs Cr)

Quarterly (Rs Cr)	Jun/17	Sep/17	Dec/17	Mar/18	Jun/18	Sep/18	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20
Net Sales/Income from operations	84	115	95	108	82	126	96	119	83	116	92	78
Expenses												
Consumption of Raw Materials	9	21	4	9	0	1	0	0	0	0	0	2
Purchase of Traded Goods	12	54	33	83	26	94	33	86	47	81	51	59
Increase/Decrease in Stocks	28	-15	13	-33	21	-15	22	-17	3	-8	1	-5
Employees Cost	7	8	8	7	7	7	7	7	5	5	6	5
Depreciation	1	1	1	1	1	1	1	2	5	5	6	6
Other Expenses	21	34	24	29	19	23	21	30	14	24	21	29
P/L Before Other Inc. , Int., & Tax	7	12	11	13	8	14	12	11	9	9	7	-18
Other Income	1	0	0	1	1	0	0	1	1	1	1	2
P/L Before Int. & Tax	8	13	12	14	9	14	13	12	10	10	7	-16
Interest	2	1	2	3	2	2	3	2	4	5	6	6
P/L Before Tax	6	12	10	11	7	13	10	10	6	4	2	-22
Tax	2	4	3	4	2	4	4	4	2	0	1	4
Net Profit/(Loss) For the Period	4	8	6	7	4	8	7	7	4	4	0	-18
Basic EPS	1.1	2.1	1.7	1.9	1.1	2.2	1.8	1.7	1.0	1.2	0.0	-5.0
Equity Share Capital	8	8	8	8	8	8	8	8	8	8	8	8

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Store Reach	Dec '16	Mar '19	Dec '19	Mar '20
EBOs (exclusive brand outlets)	134	161	180	201
MBOs (multi-brand outlets)	1200	1400+	1400+	1400+
Departmental Stores	212	380	425	485

Impact, Outlook and Changed strategies due to Covid-19

The company has been hit significantly due to the corona-virus and is implementing changes in their business strategies going ahead.

- Q1FY21 sales to be below 80-85% of Q1FY20's sales due to lock down and demand slump. Overall, the company is bracing for 30-35% fall in revenues for the full FY21 due to the pandemic.
- Only 20-25 days of unlocking/trading occurred in the Q1 leading to the drastic fall.
- Stores in malls in large metros are worst hit due to corona.

Changed strategy for future for both long term as well near future

- ITFL to focus on e-commerce platforms as it online sales were less affected as well as aligns with customer preference of avoiding physical contact.
- Several large high fixed cost stores to be closed due to the corona as the physical sales have been hit. The company will keep limited physical retail presence in the top 12 cities across India.
- Retail store expansion largely in small towns in a franchisee driven model going ahead, 25 stores to be added in an year and up to 75 in the next 3-4 years.
- Consumer buying preferences also changed. More consumers are preferring WFH casuals, boyswear, loungewear, etc.
- Overall, ITFL is working to move everything (as much as possible) on digital shelves/platforms.

Key Financials

Income Statement (Rs Cr)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue From Operations	121	141	157	232	290	325	326	401	422	370
Other Income	1	1	0	0	1	5	5	3	3	4
Total Revenue	122	142	157	232	291	330	331	404	425	374
Expenses										
Cost Of Materials Consumed	38	42	48	74	59	39	57	43	2	2
Operating And Direct Expenses	0	0	0	0	0	0	25	24	2	1
Changes In Inventories Of Fg,Wip And Stock-In Trade	-14	0	0	-12	4	-10	-19	-7	11	-8
Employee Benefit Expenses	6	8	9	11	13	17	22	29	28	22
Finance Costs	5	10	10	10	9	7	9	7	8	21
Depreciation And Amortisation Expenses	1	1	1	2	3	2	3	4	6	23
Other Expenses	61	62	72	107	122	125	71	83	90	87
Total Expenses	115	139	152	220	268	293	298	365	386	385
Profit/Loss Before Tax	6	2	5	13	23	37	33	39	40	-12
Total Tax Expenses	0	1	1	3	5	4	10	14	14	-1
Profit/Loss For The Period	6	2	4	10	18	33	23	25	26	-10
Earnings Per Share	11	3	7	17	30	9	6	7	7	-3

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (Rs Cr)

Balance Sheet (Rs Cr)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Equity Share Capital	6	6	6	6	7	7	8	8	8	8
Reserves And Surplus	14	15	20	30	119	154	171	196	222	209
Total Shareholders Funds	20	21	26	36	126	161	179	204	230	216
Non-Current Liabilities										
Long Term Borrowings	29	25	21	16	0	9	0	2	2	1
Deferred Tax Liabilities [Net]	0	0	0	0	0	0	0	1	4	1
Other Long Term Liabilities	1	2	3	5	8	9	13	17	18	88
Total Non-Current Liabilities	30	27	24	21	8	18	13	20	23	90
Current Liabilities										
Short Term Borrowings	22	32	36	35	39	33	35	35	31	42
Trade Payables	19	27	27	35	15	39	48	89	92	106
Other Current Liabilities	3	6	5	7	16	12	25	28	41	47
Short Term Provisions	4	3	3	6	11	6	1	1	2	2
Total Current Liabilities	48	69	72	83	81	91	109	153	165	197
Total Capital And Liabilities	98	117	122	141	215	270	301	377	418	503
Assets										
Non-Current Assets										
Tangible Assets	9	9	8	8	7	27	34	46	50	51
Intangible Assets	0	0	0	0	0	0	0	3	3	2
Fixed Assets	9	9	8	8	7	27	37	49	53	53
Deferred Tax Assets [Net]	0	0	0	0	0	0	5	0	0	0
Long Term Loans And Advances	6	6	8	9	13	12	8	11	13	11
Other Non-Current Assets	0	0	0	0	0	0	1	2	1	76
Total Non-Current Assets	15	15	16	17	20	39	50	62	68	141
Current Assets										
Current Investments	0	0	0	0	59	0	0	0	30	21
Inventories	33	32	32	43	36	45	74	81	68	77
Trade Receivables	45	62	69	77	96	117	109	179	240	251
Cash And Cash Equivalent	3	6	3	3	2	67	64	52	8	3
Short Term Loans And Advances	0	1	0	0	1	1	0	2	2	2
Othercurrentassets	1	0	1	1	1	2	3	2	2	9
Total Current Assets	83	102	106	124	195	231	251	315	351	363
Total Assets	98	117	122	141	215	270	301	377	418	503

Cash Flow Statement (Rs Cr)

Cash Flow Statement (Rs Cr)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Net Profit/Loss Before Extraordinary Items And Tax	6	2	5	13	23	37	33	39	40	-12
Net Cash-flow From Operating Activities	-48	5	6	14	11	23	12	19	5	14
Net Cash Used In Investing Activities	-10	-1	0	1	-58	42	-8	-17	-37	4
Net Cash Used From Financing Activities	61	-1	-10	-14	47	0	-7	-14	-12	-22
Foreign Exchange Gains / Losses	0	0	0	0	0	0	0	0	0	0
Net Inc/Dec In Cash And Cash Equivalents	3	3	-3	0	0	65	-3	-12	-45	-4
Cash And Cash Equivalents Begin Of Year	0	3	6	3	3	3	65	62	51	6
Cash And Cash Equivalents End Of Year	3	6	3	3	2	67	62	51	5	1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880