

# Indian Terrain Fashions Ltd.: Q4FY18 Result Update

## Subdued performance

CMP INR: 177  
 Rating: BUY  
 Target Price INR: 240  
 Upside: 36%

Q4FY18 was a slightly disappointing quarter for Indian Terrain. Revenues at INR 108 Cr in Q4FY18 grew by 22% from INR 89 Cr in Q4FY17 after reclassification of discount sharing and sales incentives based on Ind-AS. This is below our estimates as the base was lowered higher than what we had predicted. EBITDA margins at 13.1% in Q4FY18 were also below our estimates but higher than 12% margins in Q4FY17. EBITDA grew 33% from INR 10.6 Cr in Q4FY17 to INR 14.1 Cr in Q4FY18. PAT at INR 7.2 Cr in Q4FY18 was flat and impacted by higher depreciation, finance and tax costs. We cut our EPS estimates by 10% for FY19E and FY20E due to the underperformance from our estimates and re-iterate "BUY" with a revised TP of 240 (INR 270 earlier).

### Q4FY18 – Another subdued quarter

Indian Terrain's 22% topline growth – although in line with its guidance and recent trend of 20% plus growth – was still disappointing on an absolute basis as the restated Q4FY17 revenues were lower than anticipated. The disappointment was due to flat retail growth in January due to advancement of EOSS to December. However the new season started early which helped February and March record 20% growth helping Indian Terrain to post a decent topline growth and an SSG growth of 6% for the quarter. EBITDA was subdued in spite of gross margins improving; due to increase in employee expenses on account of expansion of retail footprint and strengthening of the team. Higher depreciation, finance and tax costs led to a subdued PAT.

### FY19 expected to be better

Wholesale is back to normal registering a 20% growth in Q4FY18 while boyswear also saw a strong 30% growth. We expect the strong revenue growth to continue in FY19 across channels and across segments with 20 new exclusive stores (currently 151 stores) and 150 shop in shop doors to be added. While lower discounting in the system should aid in robust margin expansion, higher marketing spends to increase brand visibility may slightly suppress the expansion. Margins will remain key monitorable for next year. The capex for the next year will be INR 8 Cr, spent mainly on retail and new stores and renovations

### Outlook and valuations; Re-iterate – BUY

Indian Terrain's positioning in the lucrative men's smart casual wear and Friday Dressing office wear category, along with its expansion into boys wear and footwear will ensure robust future revenue growth. Its asset light model and presence in the uncluttered non-metro cities are positives. We assign a target multiple of 20x FY20E P/E and hence arrive at a Target Price of INR 240 (INR 270 earlier).

**Kshitij Kaji**  
 Research Analyst  
 kshitij.kaji@edelweissfin.com

**Praveen Sahay**  
 Research Analyst  
 Praveen.sahay@edelweissfin.com

Bloomberg:	ITFL:IN
52-week range (INR):	251/169
Share in issue (cr):	4
M cap (INR cr):	665
Avg. Daily Vol. BSE/NSE (:'000):	4
Promoter Holding (%)	29.2

(INR cr)	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Income from operations	108	89	21%	95	14%	401	485	587
Growth %						23%	21%	21%
EBITDA	14	11	34%	13	11%	48	62	79
Adjusted net profit	7	7	1%	7	0%	26	35	46
Growth %						12%	35%	32%
Diluted P/E (x)						25	19	14
RoACE (%)						16%	18%	21%

Date: 5<sup>th</sup> June 2018

## Q4FY18 Result Highlights

	Q4FY18	Q4FY17	%Change	Q3FY18	%Change	FY18	FY19E	FY20E
Net Revenues	108	89	21%	95	14%	401	485	587
Operating Expenses	94	78	20%	82	15%	353	423	508
EBITDA	14	11	34%	13	11%	48	62	79
Depreciation	1	1	110%	1	7%	4	5	6
EBIT	13	10	30%	12	12%	44	57	73
Interest expenses	3	2	22%	2	58%	3	3	4
Other income	1	1	-42%	1	33%	3	3	4
PBT	11	9	21%	11	6%	39	52	68
Provision for tax	4	2	NA	3	19%	14	17	22
PAT Before Minority & Associate Share	7	7	1%	7	0%	26	35	46
Share of Associates	0	0	NA	0	NA	0	0	0
Reported PAT	7	7	1%	7	0%	26	35	46
Equity Capital	8	8		8		8	8	8
EBITDA Margin	13%	12%		13%		12%	13%	13%
PAT Margin	7%	8%		8%		6%	7%	8%
Tax Rate	36%	23%		32%		35%	33%	33%

## Financials

Financial Statements					
(INR Cr)					
Year to March	FY16	FY17	FY18	FY19E	FY20E
Net revenue	325	326	401	485	587
Materials costs	159	169	217	261	313
Gross profit	166	157	184	225	274
Other expenses	109	95	107	129	154
Employee costs	17	22	29	34	41
EBITDA	41	40	48	62	79
Depreciation & Amortization	2	3	4	5	6
EBIT	39	37	44	57	73
Other income	5	5	3	3	4
EBIT incl. other income	44	42	46	60	76
Interest expenses	7	9	7	8	8
Profit before tax	37	33	39	52	68
Provision for tax	4	10	14	17	22
Adjusted Profit	33	23	26	35	46
Basic shares outstanding (Cr)	4	4	4	4	4
EPS (INR)	8.8	6.0	6.8	9.1	12.0
Dividend per share (INR)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0%	0%	0%	0%	0%

### Common size metrics - as % of net revenues

Year to March	FY16	FY17	FY18	FY19E	FY20E
COGS	48.8%	51.8%	54.1%	53.7%	53.3%
Distribution & Selling Exp	33.5%	29.1%	26.7%	26.5%	26.3%
Employee Exp	5.1%	6.7%	7.2%	7.0%	7.0%
G&A Exp	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	0.7%	1.0%	1.1%	1.1%	1.0%
EBITDA margins	12.6%	12.3%	12.0%	12.8%	13.4%
EBIT margins	11.9%	11.3%	10.9%	11.7%	12.4%
Adj profit margins	10.1%	7.0%	6.4%	7.1%	7.8%
Net profit margins	10.1%	7.0%	6.4%	7.1%	7.8%

### Growth ratios (%)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Revenues	11.9%	0.3%	23.0%	21.0%	21.0%
EBITDA	22.4%	-2.5%	20.0%	29.4%	26.7%
PBT	62.2%	-9.8%	17.9%	31.9%	31.6%
Adj profit	83.3%	-30.5%	12.0%	35.2%	31.6%
Net profit	83.3%	-30.5%	12.0%	35.2%	31.6%

### Profitability & efficiency ratios

Year to March	FY16	FY17	FY18	FY19E	FY20E
ROAE (%)	23%	14%	14%	16%	18%
ROACE (%)	20%	16%	16%	18%	21%
ROIC (%)	31%	17%	16%	17%	19%
Inventory day	104	159	138	139	140
Debtors days	132	122	163	150	140
Payable days	119	110	160	145	130
Cash conversion cycle (days)	126	149	153	148	146
Current ratio	3.2	3.6	2.8	2.9	3.1
Debt/Equity	0.3	0.3	0.4	0.3	0.3
Core ROACE (%)	29%	22%	21%	23%	26%

### Valuation parameters

Year to March	FY16	FY17	FY18	FY19E	FY20E
Diluted EPS (INR)	8.8	6.0	6.8	9.1	12.0
Y-o-Y growth (%)	76.9	-31.8	12.0	35.2	31.6
Diluted PE (x)	19.2	28.2	25.2	18.6	14.1
Price/BV (x)	4.0	3.6	3.2	2.7	2.3
EV/Sales (x)	1.8	1.8	1.5	1.2	1.0
EV/EBITDA (x)	14.4	14.7	12.3	9.5	7.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Balance sheet					
(INR Cr)					
As on 31st March	FY16	FY17	FY18	FY19E	FY20E
Equity capital	7	8	8	8	8
Reserves & surplus	149	172	193	227	273
Borrowings	51	55	74	75	75
Other long-term liabilities	12	13	16	16	16
<b>Sources of funds</b>	<b>220</b>	<b>248</b>	<b>290</b>	<b>326</b>	<b>371</b>
Gross Block	31	42	60	68	76
Accumulated Depreciation	(4)	(7)	(12)	(17)	(23)
CWIP	-	-	-	-	-
Net Fixed Assets	26	34	48	51	53
Net intangible assets	-	2	4	4	4
Investments	-	14	14	14	14
Inventories	45	74	82	99	120
Sundry debtors	117	109	179	199	225
Cash and equivalents	67	56	54	58	64
Loans and advances	2	2	3	3	3
Total current assets	232	241	318	360	412
Sundry creditors and others	52	51	95	104	111
Provisions	1	1	1	1	2
Total current liabilities & provisions	52	52	96	105	113
Net current assets	180	189	222	255	299
Deferred tax assets	-	5	-	-	-
Other long-term assets	14	3	2	2	2
<b>Uses of funds</b>	<b>220</b>	<b>248</b>	<b>290</b>	<b>326</b>	<b>371</b>
Book value per share (INR)	42.0	47.3	52.7	61.9	73.9

### Free cash flow

Year to March	FY16	FY17	FY18	FY19E	FY20E
Net profit	33	23	26	35	46
Add : Depreciation	2	3	4	5	6
Others	2	4	5	5	5
Gross cash flow	37	30	34	45	56
Changes in WC	-21	-21	-35	-29	-38
Operating cash flow	16	9	-0	16	18
Capex	22	11	18	8	8
Free cash flow	38	20	18	24	26

### Cash flow metrics

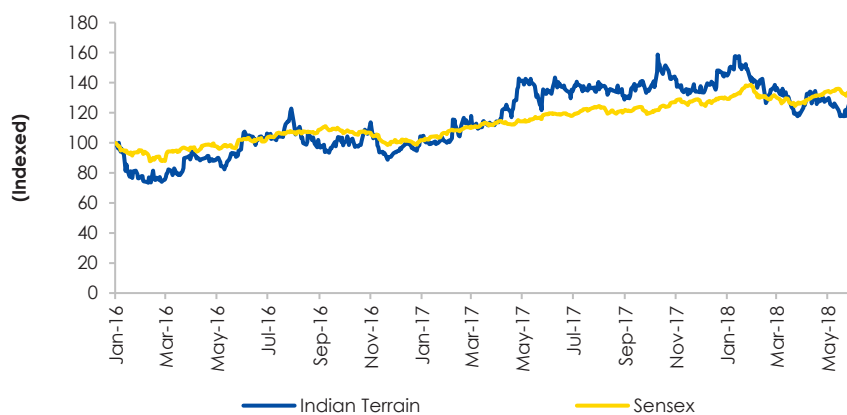
Year to March	FY16	FY17	FY18	FY19E	FY20E
Cash flow from operations	16	9	-0	16	18
Cash Flow from investing activities	-17	-6	-16	-5	-5
Cash Flow from financing activities	68	-5	7	-7	-8
Capex	-22	-11	-18	-8	-8
Dividends	-	-	-	-	-

**Vinay Khattar**

Head Research

vinay.khattar@edelweissfin.com

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate between 5-15% over a 12-month period
<b>Reduce</b>	Return below 5% over a 12-month period



# Disclaimer

Edelweiss Broking Limited ("EBL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its Associates (list available on [www.edelweissfin.com](http://www.edelweissfin.com)) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

Broking services offered by Edelweiss Broking Limited under SEBI Registration No.: INZ000005231; Name of the Compliance Officer: Mr. Brijmohan Bohra, Email ID: [complianceofficer.ebl@edelweissfin.com](mailto:complianceofficer.ebl@edelweissfin.com) Corporate Office: Edelweiss House, Off CST Road, Kalina, Mumbai - 400098; Tel. 18001023335/022-4272200/022-40094279

This Report has been prepared by Edelweiss Broking Limited in the capacity of a Research Analyst having SEBI Registration No. INH000000172 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided 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. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject EBL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. EBL reserves the right to make modifications and alterations to this statement as may be required from time to time. EBL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. EBL is committed to providing independent and transparent recommendation to its clients. Neither EBL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of EBL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of EBL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

EBL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the EBL to present the data. In no event shall EBL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the EBL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

EBL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. EBL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with EBL.

EBL or its associates may have received compensation from the subject company in the past 12 months. EBL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. EBL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or EBL's associates may have financial interest in the subject company. EBL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No  
EBL has financial interest in the subject companies: No

EBL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

EBL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No  
Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.  
A graph of daily closing prices of the securities is also available at [www.nseindia.com](http://www.nseindia.com)

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimer for U.S. Persons

Edelweiss is not a registered broker – dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition Edelweiss is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under

# Disclaimer

---

applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by Edelweiss, including the products and services described herein are not available to or intended for U.S. persons.

This report does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. "U.S. Persons" are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed "US Persons" under certain rules.

Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

#### Additional Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

#### Additional Disclaimer for Canadian Persons

Edelweiss is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by Edelweiss, including the products and services described herein, are not available to or intended for Canadian persons.

This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services.

#### Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations)

Edelweiss Broking Limited ("EBL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its associates are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance. There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. This research report has been prepared and distributed by Edelweiss Broking Limited ("Edelweiss") in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No.INH000000172.