

13 November 2021

## Go Fashion (India)

*Among the largest women's bottom-wear brands in India*

With one of the largest bottom-wear ranges in women's apparel (an 8% market share in women's branded bottom-wear), Go Colors offers such products in all categories (ethnic, western wear, fusion and denims. It has levered its first-mover advantage to create a direct-to-consumer brand with a diversified and differentiated product range of premium products at competitive prices, resistant to redundancy as its products are basic. It intends to expand further in loungewear and athleisure.

**Widespread distribution network focused on EBOs.** On 30<sup>th</sup> Sep'21 the company had a wide distribution network: 459 EBOs, 1,270 LFSs, 48 MBOs and an online channel. In FY21, EBOs brought 69% to its revenues, LFS 22%, MBOs 4.3% and Online 4.7%. In the EBO channel, it follows the COCO model. It has an established profitable and scalable EBO model, supported by an efficient supply chain. Ahead, it plans to set up EBOs in tier-II and -III cities. It plans to further invest in its digital channels and IT infrastructure. In FY21, of key women's apparel companies, Go Colors had one of the highest EBO sales per sq.ft.

**Financials.** Over FY18-20, it recorded ~44%/91%/60% revenue/EBITDA/PAT CAGRs). FY21 results were Covid'19-struck. FY20 RoE/RoCE were 18.4%/14.7%. Barring FY18, it was OCF- and FCF-positive till FY21. In the past, it has been net cash. FY20 working capital days were 141, aided by 52 receivables days. This is relatively higher, considering ~68% of its sales arise at its own EBOs.

**Valuation.** At the higher end of the band, the Rs690 issue price, the stock is valued at ~30x EV/EBITDA and ~69x P/E on FY20 figures. The consumer retail sector quotes at average EV/EBITDA of 23.3x/20.5x and average P/Es of 57.6x/46.3x FY23e/FY24e. We believe the company's core category products, higher gross margins and return ratios are positives. **Risks:** More Covid-19 cases; dependence on a single brand and category, and intense competition.

Key financials (YE Mar)	FY18	FY19	FY20	FY21
Sales (Rs m)	1,887	2,852	3,920	2,507
Net profit (Rs m)	206	309	526	-35
EPS (Rs)	3.9	5.9	10.1	-0.7
PE (x)	175.1	116.4	68.5	NA
EV / EBITDA (x)	101.7	46.1	29.8	80.9
PBV (x)	18.3	15.8	12.6	12.7
RoE (%)	10.4	13.6	18.4	-1.3
RoCE (%)	14.8	12.3	14.7	-3.3
Dividend yield (%)	-	-	-	-
Net debt / equity (x)	-0.4	-0.3	-0.1	-0.3

Source: Company, Anand Rathi Research

Issue Price: Rs655-690

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Key data		
IPO issue date	17th – 22nd Nov'21	
Face value	Rs 10	
Lot size – retail	21 shares	
Issue price	Rs. 655-690	
IPO issue size-OFS	Rs9,685m to Rs10,136m	
Issue details	Fresh issue aggregating to Rs1,250m and OFS of 12.8m equity shares	
QIB	75%	
Retail	10%	
Non-institutional	15%	
Shareholding pattern (%)		
	Pre-IPO	Post-IPO
Promoter	57.5	52.8
Non-promoter group	42.5	47.2
Total	100.0	100.0

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY18	FY19	FY20	FY21
Net revenues (Rs m)	1,887	2,852	3,920	2,507
<i>Growth (%)</i>	<b>64.3</b>	<b>51.1</b>	<b>37.4</b>	<b>-36.1</b>
Direct costs	619	945	1,300	922
SG&A	922	1,108	1,356	1,122
<b>EBITDA</b>	<b>347</b>	<b>800</b>	<b>1,265</b>	<b>463</b>
<i>EBITDA margins (%)</i>	18.4	28.0	32.3	18.5
- Depreciation	37	321	466	605
Other income	13	57	48	316
Interest expenses	10	114	165	206
PBT	313	422	683	-31
<i>Effective tax rate (%)</i>	34.3	26.7	22.9	NA
+ Associates / (minorities)	-	-	-	-
Net income	206	309	526	-35
Adjusted income	206	309	526	-35
WANS	52	52	52	52
FDEPS (Rs / sh)	3.9	5.9	10.1	-0.7
<i>FDEPS growth (%)</i>	(50.9)	50.5	70.0	(106.7)
<i>Gross margins (%)</i>	67.2	66.9	66.9	63.2

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY18	FY19	FY20	FY21
PBT	313	422	683	-31
+ Non-cash items	88	496	624	300
Oper. prof. before WC	402	918	1,306	268
- Incr. / (decr.) in WC	319	418	532	-631
Others incl. taxes	121	167	202	0
Operating cash-flow	-38	333	572	899
- Capex (tang. + intang.)	135	265	285	100
Free cash-flow	-173	68	287	798
Acquisitions				
- Div. (incl. buyback & taxes)	0	0	-0	-0
+ Equity raised	1,000	-	-	-
+ Debt raised	-	-	-	-
- Fin investments	-24	-201	-163	314
- Misc. (CFI + CFF)	8	298	500	429
Net cash-flow	843	-29	-50	55

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY18	FY19	FY20	FY21
Share capital	590	790	790	790
Net worth	1,970	2,283	2,863	2,829
Total debt	26	83	28	104
Minority interest	-	-	-	-
DTL / (assets)	-12	1,424	2,012	2,143
<b>Capital employed</b>	<b>1,984</b>	<b>3,790</b>	<b>4,903</b>	<b>5,076</b>
Net tangible assets	261	1,850	2,550	2,590
Net intangible assets	3	5	7	5
Goodwill	-	-	-	-
CWIP (tang. & intang.)	17	20	81	86
Investments (strategic)	-	-	-	-
Investments (financial)	736	234	89	464
Current assets (ex cash)	1,038	1,464	2,084	1,865
Cash	79	437	325	397
Current liabilities	149	219	233	331
Working capital	889	1,244	1,851	1,534
<b>Capital deployed</b>	<b>1,984</b>	<b>3,790</b>	<b>4,903</b>	<b>5,076</b>
Contingent liabilities	-	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21
P/E (x)	175.1	116.4	68.5	NA
EV/EBITDA (x)	101.7	46.1	29.8	80.9
EV/sales (x)	18.7	12.9	9.6	15.0
P/B (x)	18.3	15.8	12.6	12.7
RoE (%)	10.4	13.6	18.4	-1.3
RoCE (%) - After tax	14.8	12.3	14.7	-3.3
ROIC	18.2	14.9	15.1	-3.4
DPS (Rs per share)				
Dividend yield (%)	-	-	-	-
Dividend payout (%) - Inc. DDT				
Net debt/equity (x)	-0.4	-0.3	-0.1	-0.3
Receivables (days)	56	51	52	69
Inventory (days)	84	89	99	118
Payables (days)	15	18	10	16
CFO:PAT%	-18.5	107.6	108.7	-2,538.9

Source: Company, Anand Rathi Research

## Issue details

1. **Opens:** 17<sup>th</sup> Nov'21
2. **Closes:** 22<sup>nd</sup> Nov'21
3. **Issue details:** Fresh issue of Rs1,250m and Offer for Sale of 12.8m equity shares
4. **Issue size:** Rs9,685m to Rs10,136m
5. **Price band:** Rs655 to Rs690 a share
6. **Lot size:** 21 shares

### Objective

- The offer comprises a fresh issue of Rs1,250m and an offer for sale of Rs8,886m (at the upper price band, 12.88m shares). The PKS and VKS Family Trusts, Sequoia Capital India Investment, India Advantage Fund S4 I and Dynamic India Fund S4 US-I will be selling shares in the OFS.
- The company will not receive any of the OFS proceeds. Net proceeds from the fresh issue will be deployed on the roll-out of 120 EBOs, working capital required and general corporate needs.

**Fig 5 – Details of net proceeds from the fresh issue**

(Rs m)	Capex	Capex in FY23	Capex in FY24
Funding the roll-out of 120 EBOs	337	169	169
Funding working capital required	614	614	-

Source: Company

### Valuation

At the top of its price band (Rs690 a share), the issue is priced at ~30x EV/EBITDA and ~69x P/E on FY20 figures (as FY21 was impacted by Covid-19). The consumer retail sector quotes at average EV/EBITDA of 23.3x/20.5x FY23e/FY24e, and average P/Es of 57.6x/46.3x.

**Fig 6 – Peer comparison**

Company	M-cap (Rs m)	FY 21					RoE (%)	CMP (Rs)
		Net sales (Rs m)	EBITDA (Rs m)	PAT (Rs m)	EPS (Rs)			
Page Industries	4,17,190	28,330	5,266	3,406	305.4	40.0	40,244	
Trent	3,91,036	25,930	1,719	(1,462)	(4.1)	(6.1)	1,157	
Bata India	2,68,030	17,085	1,622	(893)	(6.9)	(5.1)	2,155	
ABFRL	2,14,030	51,811	5,943	(6,496)	(7.1)	(34.5)	299	
TCNS Clothing	44,124	6,355	24	(564)	(9.2)	(8.9)	825	

Source: Bloomberg, Company

## One of the largest women’s bottom-wear brands in India

Well-diversified product range, with first-mover advantage

With an ~8% market share in branded women’s bottom-wear in FY20, Go Colors is one of the largest women’s bottom-wear brands in India. It retails 50 bottom-wear styles in over 120 colours.

Its diverse product range caters to women across all age groups and to girls and physiques covering the entire spectrum of women’s bottom-wear needs, including daily wear, casual and work wear, festival and occasion wear, and lounge-wear. The company intends to expand further into loungewear, a work-from-home collection, athleisure and other products in ethnic-, western- and fusion-wear.

It has acted as a “category creator” for bottom-wear and has levered its first-mover advantage to create a direct-to-consumer brand with a diversified and differentiated range of premium products at competitive prices, from Rs225 to Rs1,599. Its ASP in FY21 was Rs584 and at 30<sup>th</sup> Jun’21 was Rs619.

**Fig 7 – Go Colors’ product range**

Product Type	Products	MRP (Rs / piece)
Ethnic	Churidars, patialas, kurta-pants, salwars, silk pants, dhotis	549--1,049
Western	Leggings, cropped jegging, jeans, cargo pants, trousers, ponte pants, track pants, culottes, treggings, shorts	499--1,499
Fusion	Jeggings, palazzos, pants, harem pants	699--1,299
Athleisure	Leggings, track pants, joggers	549--999
Denims	Jeggings, joggers, jeans, denim palazzos, pants, denim culottes, capris	1,049--1,499
Lounge	Lounge pants, lounge knit pants, lounge capris, lounge shorts	449--749
Go Plus	Churidars, leggings, jeggings, pants, palazzos	599--1,599
Girl’s	Leggings, jeggings, palazzos, pants, shorts, harem pants	225--999

Source: Company

Its portfolio is resistant to redundancy (because of fashion trends) as it designs products to cater to women of all age groups and girls, and fits suitable for various body types and physiques. This, with lack of seasonality, renders its portfolio safer.

It typically retails products at full price (discounts only in limited circumstances) since they do not get redundant, are relevant round the year, and prices cater to all income brackets, as also due to the strength of its “Go Colors” brand. This, the company says, results in greater profitability. It had ~97% full-price sales in FY19-20.

Widespread distribution network, focusing on EBOs

The brand ‘Go Colors’ is retailed through an extensive network of EBOs, LFSs, MBOs, and its online channel, and others. At 30<sup>th</sup> Sep’21, it had ~1,850 points of sales: 459 EBOs in 118 cities and 1,270 LFSs in 499 cities. It also sold online through e-commerce websites and its own. In FY21, EBOs brought 69% to its revenues, LFSs 22%, MBOs 4.3%, with 4.7% coming from the online channel.

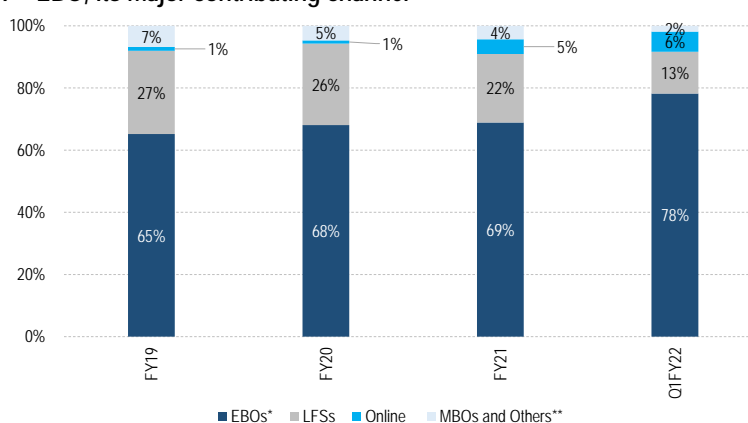
**Fig 8 – Go Colors' retail touch points**

	FY19	FY20	FY21	Q1FY22
EBOs *	333	448	449	446
LFSs	925	1,419	1,267	1,353
Online	7	9	13	10
MBOs and Others **	64	50	48	48
<b>Total</b>	<b>1,329</b>	<b>1,926</b>	<b>1,777</b>	<b>1,857</b>

Source: Company

\*EBOs include kiosks and franchisees. In FY19, FY20 & FY21, it operated respectively 30, 25 & 15 kiosks and 10, 11 & 11 franchisee EBOs

\*\* MBOs and others include sales through multi-brand outlets and garment fairs, exhibitions, events, etc. incl. scrap sales

**Fig 9 – EBO, its major contributing channel**

Source: Company

\*EBOs include kiosks and franchisees. At 31st Mar '19, '20 and '21, it was operating 30, 25 & 15 kiosks and 10, 11 & 11 franchisee EBOs

\*\* MBOs and others include sales through multi-brand outlets and garment fairs, exhibitions, events, etc., and scrap sales

To ensure efficiency and offer customers a standardised experience and services, its EBOs are company-owned, company-operated (COCO). Its 450 EBOs in FY21 include 15 kiosks (all COCO) and 11 franchisees.

LFSs include Reliance Retail, Central, Unlimited, Globus Stores Pvt. Ltd. and Spencer's Retail. LFS revenue made up 26.3% and 22% of revenue from operations in FY20 and FY21 respectively. The company supplies products on a sale-or-return basis and takes back unsold stock from retailers. It also provides staff for such stores. It is required to share a certain percentage of the margin on the MRP and the cost of discounts.

Revenue from MBOs was ~3% of its FY20-21 revenue. Products are sold to distributors, who then supply them to MBOs. The company offers a margin on the MRP and provides trade incentives from time to time in accordance with internal policies.

#### Profitable and scalable EBO model

Go Colors had one of the highest sales per sq.ft. in EBOs among key women's apparel companies in FY21. This was due to its ability to identify and determine the optimum location and size of a store as well as manage rental costs and marketing leverage of EBOs, ensuring visibility among target customers and sustainable store profits.

It has a standardised and scalable development model for its EBOs based on its know-how and experience.

Its unit economics has allowed it to expand its EBOs relentlessly. It has opened 305 EBOs and over 400 LFSs in the last three years.

**Fig 10 – Go Colors has the highest sales per sq.ft. in the industry**

Brand	Store size (sq. ft.)	SPSF / Year (Rs.)
Go Colors	150 - 500	12,000 - 40,000
Aurella	800 - 1,200	6,000 - 9,000
BIBA	1,000 - 1,500	8,500 - 12,500
Fabindia	2,500 - 3,500	10,500 - 15,000
Soch	1,200 - 3,000	6,500 - 16,500
W	800 - 1,200	7,000 - 10,500
Zara	15,000 - 30,000	20,000 - 40,500

Source: Company

The size of its EBOs range from 300 sq.ft. to 700 sq.ft., averaging 500 sq.ft. This allows it to implement safe-distancing measures, particularly relevant during the Covid-19 pandemic.

**Fig 11 – Go Colors' EBO performance indicators**

	FY19	FY20	FY21	Q1FY21	Q1FY
New stores opened during the Fiscal / period	130	133	42	4	
Stores closed during the Fiscal / period	15	18	41	2	
Stores*	333	448	449	452	44
Cities	88	110	114	111	11
Same Store Sales Growth** (SSSG)	19.97%	11.37%	(36.75%)	(88.98%)	183.84
Average Store Area (sq. ft.)	306	349	380	350	38
Sales per Square Feet (Rs)	18,174	17,064	10,135	530	1,4
- Mature Stores <sup>#</sup> Sales per Square Feet (Rs)	24,737	21,871	10,525	610	1,5
Revenue per Store (Rsm)	5.6	6.0	3.9	0.19	0.1
- Mature Stores <sup>#</sup> (Rsm)	7.4	7.2	3.8	0.20	0.1
Average Capital Expenditure per Store <sup>^</sup> (Rsm)	1.2	1.4	1.7	1.7	2

Source: Company

\* SSSG represents the period-over-period percentage change in net revenue from operations of all stores operational for more than 12 months for the reported fiscal

<sup>#</sup> Mature stores refer to stores in existence for more than 12 months

<sup>^</sup> Average capital expenditure per store refers to cost of interiors, furniture and equipment

## Efficient and technology-driven supply chain

Go Colors, among other things, offers customers premium products at affordable prices. Its value proposition stems from low procurement and operating costs. It has modern equipment at its warehouses, leading to process efficiencies, enabling it to optimise costs.

It outsources manufacturing, thereby not incurring such costs. At 31<sup>st</sup> May'21, it had a network of over 120 suppliers and job-workers across India, with many of whom it has longstanding relations. It provides raw material and logos to job workers and purchases fabric directly from mills or weavers, limiting purchases from traders and intermediaries. For certain products, it imports or procures finished products directly from third parties. It follows stringent quality assurance at various levels through quality control mechanisms, and regularly conducts inspections of fabric sourced from suppliers.

It has automated its entire procurement and supply chain through an ERP system, enabling it to streamline procurement, including quantity required so as to avoid over- or under-stocking as well as handling complex SKU

mixes to meet the supply-chain requirements of its extensive distribution network. Together, its supply-chain management systems and internal controls minimize shortages and out-of-stock situations. It operates efficiently and productively with minimal disruptions to day-to-day operations, allowing it effectively manage inventory. It manages inventory and logistics as well as its entire supply chain for all channels from its more than 99,100 sq.ft. warehouse in Tirupur, Tamil Nadu.

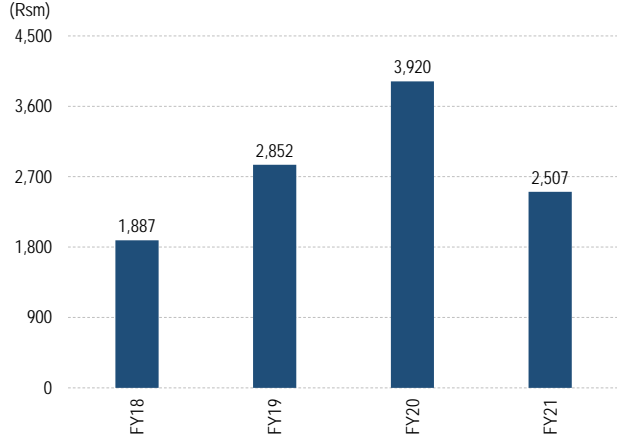
#### Strong in-house designing process

The company develops products in-house based on demand for such products and similar products sold, which it tracks and monitors through its ERP system. Over FY18-21, it launched more than 20 products backed by in-depth market research and data analysis. At 30<sup>th</sup> Sept'21, its in-house design team comprised 10 professionals.

# Financials

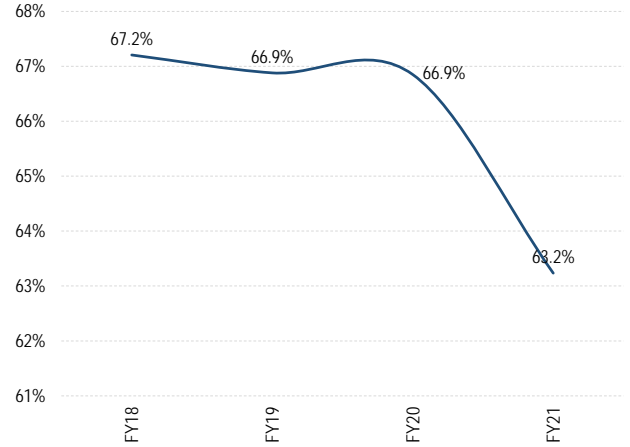
Strong financials; Covid’19-hit FY21

**Fig 12 – 44% revenue CAGR over FY18-20**



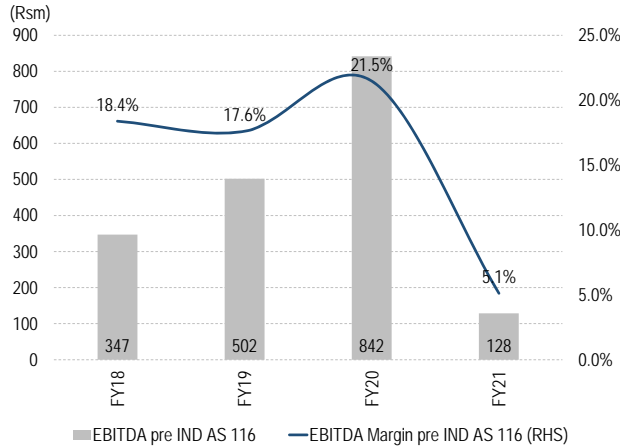
Source: Company

**Fig 13 – -67% gross margin over FY18-20**



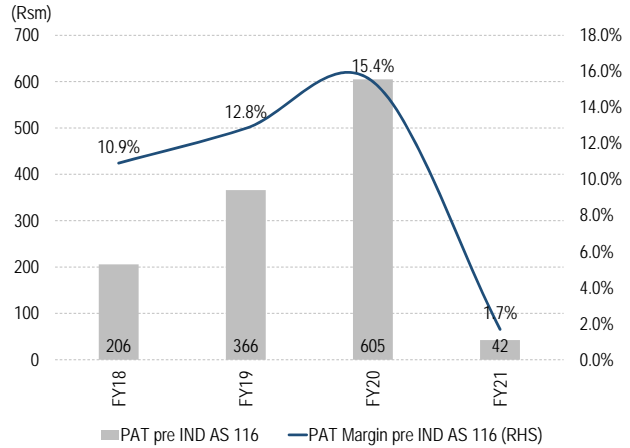
Source: Company

**Fig 14 – EBITDA, EBITDA margin (pre-IND AS 116)**



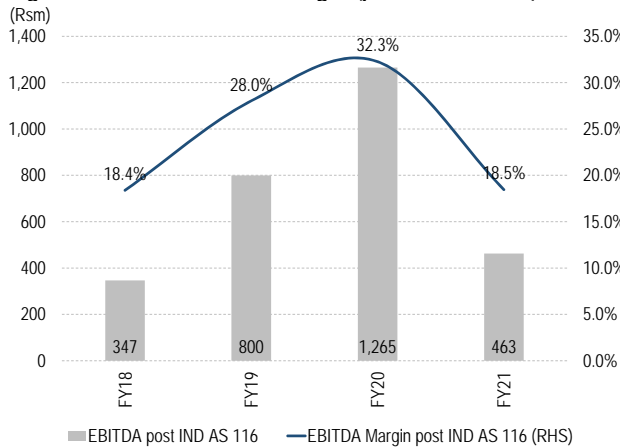
Source: Company

**Fig 15 – PAT, PAT margin (pre-IND AS 116)**



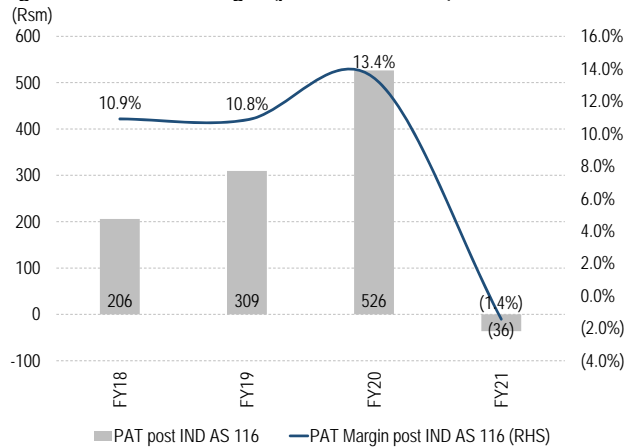
Source: Company

**Fig 16 – EBITDA, EBITDA margin (post-IND AS 116)**



Source: Company

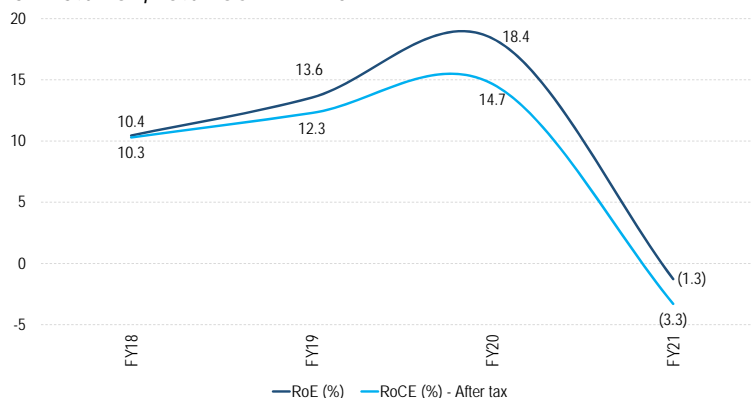
**Fig 17 – PAT, PAT margin (post-IND AS 116)**



Source: Company



Fig 18 – 18% RoE, 15% RoCE in FY20



Source: Company

Fig 19 – du Pont analysis

	FY18	FY19	FY20	FY21
Profit margin (%)	10.9	10.8	13.4	(1.4)
Asset turnover (x)	0.9	0.9	0.8	0.5
Equity multiplier (x)	1.1	1.5	1.8	1.9
<b>RoE (%)</b>	<b>10.4</b>	<b>14.5</b>	<b>20.5</b>	<b>(1.3)</b>

Source: Company

Fig 20 – 141 working-capital days in FY20

On sales	FY18	FY19	FY20	FY21
Receivables days	56	51	52	69
Inventory days	84	89	99	118
Payables days	15	18	10	16
<b>Net working-capital cycle</b>	<b>125</b>	<b>123</b>	<b>141</b>	<b>171</b>

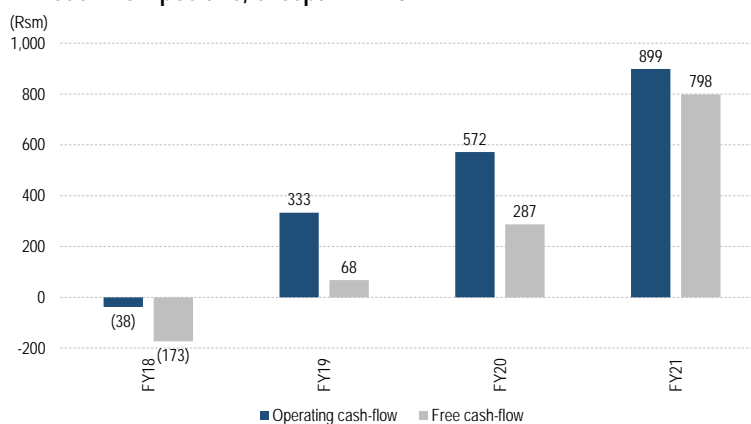
Source: Company

Fig 21 – Net-debt-to-equity: -0.27x in FY21

	FY18	FY19	FY20	FY21
Net cash & cash equivalents (RS m)	789	588	386	757
<b>Net debt to equity (x)</b>	<b>(0.40)</b>	<b>(0.26)</b>	<b>(0.13)</b>	<b>(0.27)</b>

Source: Company

Fig 22 – Cash-flow positive, except in FY18



Source: Company

## Peer comparison

**Fig 23 – Peer valuations**

Valuation	M.Cap (Rs m)	EV / EBITDA (x)			P/E (x)		
		FY22e	FY23e	FY24e	FY22e	FY23e	FY24e
Page Industries	451,333	64.6	49.7	42.5	98.0	73.9	62.5
Trent	406,873	74.4	49.8	41.0	298.1	129.6	90.7
Aditya Birla Fashion & Retail	280,092	30.3	19.9	16.4	-	111.7	55.3
Lux Industries	125,486	26.9	22.3	19.5	38.4	32.6	27.3
Vmart Retail	85,818	44.3	25.5	20.4	262.8	75.9	53.5
TCNS Clothing	50,613	70.2	26.0	21.8	133.8	40.6	33.8
Arvind Fashions	44,528	44.7	21.9	18.3	-	59.0	36.9
Rupa Company	35,341	13.1	11.4	-	18.0	15.2	-
Shoppers Stop	41,635	16.7	10.2	8.8	-	61.0	78.4
Raymond	33,730	9.4	7.2	6.4	32.7	16.6	10.0
Kewal Kiran	14,679	18.0	12.0	9.5	24.8	17.0	14.1

Source: Bloomberg

**Fig 24 – Peer financials**

	CAGR % (FY15-FY20)			Gross margins (%) FY20	EBITDA margins (%) FY20	RoCE (%)			RoE (%)			Working capital (days)		
	Revenue	EBITDA	PAT			FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Page Industries	13.8	10.8	11.9	55.5	18.1	41.2	42.9	40.8	45.9	48.6	43.0	83	96	87
Trent (consolidated)	8.8	49.5	54.0	46.0	15.5	7.9	8.5	11.9	5.5	6.0	6.0	26	37	34
Aditya Birla Fashion & Retail	9.9	18.6	NM	51.9	14.0	6.3	8.9	10.0	11.5	25.5	(11.5)	12	14	38
Lux Industries	12.9	27.0	31.4	60.5	16.1	15.7	17.5	24.0	27.6	27.1	30.8	169	138	161
Vmart Retail	18.2	27.4	4.7	32.2	12.9	23.2	18.1	19.6	25.2	16.3	11.4	42	46	62
TCNS Clothing	30.7	29.5	21.4	65.0	16.2	26.0	23.9	13.7	27.5	25.0	10.9	98	108	122
Arvind Fashions (FY16-20)	6.2	16.1	NM	44.9	7.1	5.4	6.9	(8.2)	1.4	1.8	(37.8)	38	65	77
Rupa Company	0.0	(3.8)	(1.9)	59.0	11.7	18.5	15.8	12.1	18.4	14.2	11.0	169	200	219
Shoppers Stop	(4.2)	15.5	NM	42.1	15.9	7.6	6.2	12.1	30.9	7.1	(28.9)	(11)	(16)	(26)
Raymond	4.0	3.9	11.7	56.8	8.0	4.4	5.9	3.7	8.1	9.3	2.2	99	100	110
Kewal Kiran	5.3	(0.3)	2.0	59.8	18.0	14.5	14.5	12.6	18.9	19.4	16.7	103	157	146

Source: Company, Bloomberg

## Appendix

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