



September 21, 2010

## ICRA re-affirms the LA- and A2+ ratings for the bank facilities of Gokaldas Exports Limited

ICRA has reaffirmed the LA- (pronounced L A minus) rating outstanding on the Rs. 31.0 crore<sup>1</sup> term loan facilities of Gokaldas Exports Limited ("GEL" / "the Company")<sup>†</sup>. ICRA has also reaffirmed the A2+ (pronounced A two plus) rating outstanding on the Rs.495.0 crore fund based facilities of GEL.

The reaffirmation of ratings reflects GEL's established position in the Ready Made Garments (RMG) export market and its strong relationships with renowned international brands like *Gap*, *Nike*, *Puma* and *Levis*. The ratings also consider the benefits arising from GEL's large scale of operations, resulting in favourable scale economics, and the promoters' experience of more than three decades in the RMG industry. The ratings are however constrained by the tight demand conditions in GEL's major markets of the United States (US) and Europe, which has led to rigid pricing in the backdrop of rising input costs. While the pricing pressure has impacted the cash accruals, growth in margins is likely to be gradual on the back of slow pace of economic recovery in these markets. ICRA would continue to closely monitor the Company's order book position and improvement in pricing flexibility with customers.

GEL derives about 50% of revenues from top two customers, *Gap* and *Nike*, indicating client concentration and thereby heightening the impact of any order volatility on revenue growth; the risk is however buffered to an extent by GEL's established relationships with such customers (as witnessed through sustenance of volumes amidst tight demand conditions prevailing over two years). While the textile industry faces intense competition from other low-cost countries, movements in foreign exchange rates will be critical in determining the demand for RMG and its realisations. Further, significant fluctuations in foreign exchange rates could drive volatility in earnings. GEL's working capital position remains stretched due to high raw material inventory levels, although it has moderated to an extent during 2009-10.

### Company Profile

Initially promoted as a partnership firm by late Mr. Jhamandas H. Hinduja in 1978 and incorporated in 2004 as a public limited company, GEL is one of the larger apparel exporters from India. The Company caters mainly to renowned brands in the markets of US and Europe such as *Gap*, *Nike*, *Puma* and *Levis*. GEL's product profile mainly comprises woven garments, and its main products include bottom wear, outer wear (includes sportswear and winter wear), active wear and casual wear. GEL operates from over 40 locations, largely in and around Bangalore. GEL earns over 90% of its revenues from the US and European markets, while about 7% of the revenues are derived from the domestic markets.

In February 2008, Blackstone FP Capital Partners (Mauritius) V-B Subsidiary Limited ("Blackstone") acquired 50.1% stake from the Indian promoters and a further 18.2% stake from the public through the mandatory open offer. Currently, Blackstone holds 68.3% stake in GEL while the Indian promoters hold 20.0% stake.

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<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

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## Recent Results (unaudited, consolidated)

For the quarter ended June 30, 2010, the Company reported net loss of Rs.17.6 crore on an operating income of Rs.248.6 crore. The bottom-line was impacted to an extent by the fire accident at one of GEL's warehouses in April 2010. This resulted in delayed production by about 3-4 weeks, entailing non-absorption of wage costs and higher air-freight costs incurred to ensure timely supplies. The Company expects to fully recover the loss (of Rs.37.6 crore) arising from the fire accident.

September 2010

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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](http://www.icra.in)

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