May 03, 2024

Gokaldas Exports Limited: Ratings reaffirmed; removed from Rating Watch with Developing Implications; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Fund Based	345.00	345.00	[ICRA]A1; reaffirmed, removed from Rating Watch with Developing Implications
Long Term - Fund Based – Term Loan	40.00	40.00	[ICRA]A (Stable); reaffirmed, removed from Rating Watch with Developing Implications; Stable outlook assigned
Long Term – Unallocated Limits	40.08	40.08	[ICRA]A (Stable); reaffirmed, removed from Rating Watch with Developing Implications; Stable outlook assigned
Short Term - Non-Fund based	200.92	200.92	[ICRA]A1; reaffirmed, removed from Rating Watch with Developing Implications
Total	**626.00**	**626.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings, removal of ratings from Rating Watch with Developing Implication and assignment of a Stable outlook on the long-term rating reflect the healthy operational and financial performance of Gokaldas Exports Limited (GEL) in FY2023 and 9M FY2024 (albeit a moderation owing to weak operating environment) and expectation of further improvement in its financial performance following the inorganic expansions done by the entity in FY2024. The ratings were earlier placed on Rating Watch with Developing Implications owing to uncertainty around the funding mix with regards to the planned acquisition of Matrix Design & Industries Pvt. Ltd. (MDIPL) for a total enterprise value of Rs. 489.3 crore from Matrix Clothing Private Limited (MCPL) and planned fund raising of Rs. 600 crore to part fund this acquisition.

While resolving the Watch, ICRA has noted the completion of the acquisition of MDIPL and funds raised through Qualified Institutional Placement (QIP) for Rs. 600 crore. ICRA understands that post adjusting the QIP issue expenses, the company plans to deploy the funds towards settling the existing debt of Rs.155.3 crore, availed by MDIPL from MCPL. It also plans to look at the prepayment of the working capital demand loan availed by the company of Rs.170.2 crore, and its investment into the wholly-owned subsidiary, Sri Susamyuta Knits Private Limited (SSKPL), for repayment or pre-payment in full or in part, of certain outstanding borrowings availed by SSKPL of Rs.25.9 crore. Additionally, the company plans to deploy Rs.135.8 crore towards other general corporate purposes and Rs.98.5 crore for augmenting long term cash resources to fund the investment, acquisitions and inorganic growth opportunities going forward. ICRA also notes the recent development where one of the customers, which owes ~Rs. 14.6 crore to MDIPL, has filed for reorganisational bankruptcy in the US court. Nonetheless, 90% of these receivables limiting up to Rs.13 crore are backed by insurance coverage from the Export Credit Guarantee Corporation.

The ratings reflect GEL's established market position and strong relationship enjoyed with large international customers, which are expected to aid the company in achieving healthy revenue growth in the ensuing financial years. GEL's credit metrics and liquidity position are likely to witness a healthy improvement in the current financial year, consequent to the recent equity fund raised by the entity.

The ratings, however, remain constrained by the vulnerability of the company's profitability to any adverse change in foreign currency exchange rates and export incentives structure, along with high geographical as well as client concentration risks.

Further, the company's operations are working capital intensive, driven by elongated inventory as well as the receivable turnover period. Together with client concentration risk, high receivables expose the Group to the counterparty credit risk. Besides, the company is exposed to labour unrest and attrition risks, given the nature of the apparel manufacturing industry. The ratings are also constrained by the intense competition in the industry, which limits the pricing flexibility of industry participants.

The Stable outlook on the company's long-term rating reflects ICRA's expectation that a recovery in demand in the textile segment along with synergies from recent acquisition would help GEL report a healthy growth in revenues and maintain healthy margins, thereby supporting a comfortable capitalisation and debt coverage metrics.

Key rating drivers and their description

Credit strengths

Established market position and diversified product offerings – GEL has a long presence of over three decades in the apparel export business. An established track record in the woven garment exports with large production capacities helped GEL obtain business from reputed global retailers over the years. GEL's product profile remains diversified across the products and end-user segments. Its main products include bottom wear, outer wear (including sportswear and winter wear), active wear and casual wear for men, women and children. These operational strengths have supported GEL's revenue growth over the years.

Strong customer base – GEL enjoys established relationships with reputed global apparel retailers in the markets of North America and Europe, as evident from repeat orders received and a steady increase in the wallet share with key customers. The volume offtake has remained steady over the years as these brands enjoy healthy value share in their respective markets. In addition, an expected shift in sourcing by large retailers from the other large competing supplier nations to India and product/ customer diversification initiatives undertaken by GEL are likely to support the long-term revenue growth potential of the company.

Healthy financial risk profile – Post the pandemic-induced business disruptions in FY2021, the company has been able to scale up its operations at a healthy pace in FY2022 and FY2023, reporting a YoY revenue growth of ~50% and ~23%, respectively. The company reported an operating income of Rs. 2,228.9 crore in FY2023 and Rs.1,566.5 crore in 9M FY2024. GEL reported a ~8% decline in revenue in 9M FY2024 amid inflationary pressure and demand slowdown in the key exporting regions. Consequent to the recent acquisitions made in Q4 FY2024, the company is expected to register a revenue growth of more than 50% in FY2025 over the levels expected in FY2024. Along with better operating efficiency, increased scale of operations helped the company report an operating margin of 12.1% in FY2023, up from 11.3% in FY2022. However, the company's operating margins declined to ~10.8% in 9M FY2024 owing to an increase in employee costs and one-time expense booked towards setting up the new unit in Bhopal and cost incurred in relation to the recent acquisition made by the entity. This apart, along with the receipt of QIP funds, higher profits have resulted in an improvement in the liquidity position and debt protection metrics as well. The company reported an interest cover of 10.5 times in FY2023 against 5.1 times in FY2022 and Total Debt/ OPBDITA of 0.6 times in FY2023 against 0.9 times in FY2022. DSCR also stood comfortable at 4.5 times in FY2023 against 2.2 times in FY2022.

Credit challenges

Moderate geographical, customer concentration and labour risks – GEL's revenues remain susceptible to the geographical concentration risk as ~80% and ~76% of its revenues were generated from the US market in FY2023 and 9M FY2024, respectively. However, consequent to the recently completed acquisitions, this risk is expected to moderate to some extent, given the presence of the acquired entities in the European markets. Further, the customer concentration risk also remains at a moderate level for the company. The risk is mitigated to an extent by the established relationship enjoyed with its clientele and the continued steps taken by GEL to further diversify its revenue base (supported by the capacity expansion being undertaken). Besides, the company is exposed to labour unrest and attrition risks, given the nature of the apparel manufacturing industry.

Limited pricing flexibility exposes earnings to price risk – GEL's earnings remain exposed to fluctuations in raw material prices and foreign currency exchange rates on the back of intense competition, resulting in limited pricing flexibility. The company faces competition from other large textile exporters from India as well as from other low-cost garment exporting countries, which limits its ability to improve prices and margins to an extent. While order-backed procurement limits price risk because of movement in yarn prices, earnings have been protected to a large extent against fluctuations in exchange rates through the hedging arrangement undertaken. Like other apparel exporters, high dependence on export incentives exposes the company's profitability and competitiveness in the international markets to any adverse change in the export incentive structure.

Environmental and Social Risks

Environmental considerations: The sector remains exposed to the risks of elevated input costs owing to increased compliance expenses faced by suppliers amid tightening environmental regulations. The industry is exposed to environmental risks, primarily through water, land use, and the impact of climate on production as well as post-consumer waste. While these risks have not resulted in material implication so far, policy actions towards waste management like recycling the textile could have cost implications for the companies. Any disruption in measures taken for appropriate treatment of wastewater/effluents could result in significant penalties, while also causing prolonged adverse impact to operations if the authorities take any strict action.

Social considerations: Being a labour-intensive segment, the entities operating in the garment sector are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their safety and the overall well-being. Besides, human rights issues and inability to ensure diversity, while providing equal opportunity could pose social risks for the company. Further, any significant increase in wage rates may affect the cost structure of apparel manufacturers, impacting the margins. Shortage of skilled workers could also affect operations/growth plan and remains a key concern. Measures taken by the company towards employee welfare have resulted in no material impact on the performance from the above mentioned risks till date. Further, garment manufacturers are exposed to the risks of conflicts with local communities. Entities also remain exposed to any major shift in consumer preferences or developments, affecting discretionary consumer spending in key markets.

Liquidity position: Strong

GEL's liquidity position is expected to remain strong, given its healthy cash accruals from business and surplus available from the recently concluded private equity investment (post fulfilling end-use requirements) along with healthy cushion in the sanctioned working capital limits. The liquidity position has also been supported by healthy cash and bank balances including liquid investments of Rs. 336.3 crore as on December 31, 2023. Overall, GEL is expected to meet any funding requirement for expansion and the resultant incremental working capital requirements, with the surplus cash reserves, lending comfort.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company registers a sustained healthy growth in revenues and profit margins, while maintaining its strong credit metrics and liquidity position. The ratings may also be upgraded if the company achieves customer and geographical diversification while improving its competitive position.

Negative factors – The ratings may be downgraded in case of any sustained pressure on GEL's revenues or profitability or higher-than-anticipated debt-funded capex, which would adversely impact its debt protection metrics and liquidity position. Specific credit metrics that may lead to ratings downgrade include net debt to OPBDITA exceeding 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of the subsidiaries have been given in Annexure-II.

About the company

Initially promoted as a partnership firm by Mr. Jhamandas H. Hinduja in 1978 and incorporated as a public limited company in 2004, GEL is one of the largest apparel exporters from India. GEL operates from more than 20 manufacturing facilities, primarily in and around Bangalore, and is in the process of expanding its capacity, given the healthy demand conditions. The company caters to renowned brands in the markets of North America and Europe, serving their requirements across various product categories. Clear Wealth Consultancy Services LLP, led by Mr. Mathew Cyriac, acquired a 39.94% stake in the company from Blackstone FP Capital Partners (Mauritius) VB Subsidiary Ltd. in FY2018. Post the equity infusion in Q1 FY2019 and QIP in October 2021, the shareholding of Clear Wealth Consultancy Services LLP reduced to ~11% as on December 31, 2023. Consequent to the recent QIP in April 2024, the same has further reduced to ~9% as on April 23, 2024. The remaining stake is held by institutional investors, corporate bodies, public and others.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	9M FY2024*
Operating income	1,811.4	2,228.9	1,566.5
PAT	117.1	173.0	86.7
OPBDIT/OI	11.3%	12.1%	10.8%
PAT/OI	6.5%	7.8%	5.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.5	0.5
Total debt/OPBDIT (times)	0.9	0.6	0.9
Interest coverage (times)	5.1	10.5	10.1

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2025) Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2025	Chronology of rating history for the past 3 years: Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
					May 3, 2024	Feb 12, 2024	Sep 06, 2023	Mar 23, 2023	Dec 29, 2022	Dec 27, 2021
1	Fund-Based Limits	Short Term	345.00	--	[ICRA]A1	[ICRA]A1&	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
2	Fund Based – Term Loan	Long Term	40.00	16.07	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
3	Unallocated	Long Term	40.08	--	[ICRA]A (Stable)	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
4	Non-fund based limits	Short Term	200.92	--	[ICRA]A1	[ICRA]A1&	[ICRA]A1	[ICRA]A1	-	-
5	Unallocated	Short Term	-	--	-	-	-	-	-	[ICRA]A2+

&: Rating Watch with Developing Implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short Term – Fund Based	Very Simple
Long Term - Fund Based – Term Loan	Simple
Long Term – Unallocated Limits	Not applicable
Short Term - Non-Fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Short Term - Fund Based	NA	NA	NA	345.00	[ICRA]A1
NA	Long Term - Fund Based TL	FY2021	NA	FY2025	40.00	[ICRA]A (Stable)
NA	Long Term – Unallocated	NA	NA	NA	40.08	[ICRA]A (Stable)
NA	Short Term – Non-Fund Based	NA	NA	NA	200.92	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
All Colour Garments Private Limited	100.00%	Full Consolidation
SNS Clothing Private Limited	100.00%	Full Consolidation
Vignesh Apparels Private Limited	100.00%	Full Consolidation
Gokaldasexports Acharpura Private Limited	100.00%	Full Consolidation
Sri Susamyuta Knits Private Limited	100.00%	Full Consolidation
Gokaldas Exports FZCO	100.00%	Full Consolidation
Nava Apparels, L.L.C FZ, Dubai, UAE	100.00%	Full Consolidation
Gokaldas Exports Corporation, USA	100.00%	Full Consolidation

Source: Company

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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.

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