December 27, 2021

# Gokaldas Exports Limited: Ratings upgraded to [ICRA]A-/[ICRA]A2+; outlook revised to Positive from Stable

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Short Term - Fund Based | 525.00 | 310.00 | [ICRA]A2+; upgraded from [ICRA]A3+ |
| Long Term - Fund Based TL | 0.00 | 40.00 | [ICRA]A- (Positive); upgraded from [ICRA]BBB(Stable) |
| Long Term - Unallocated | 50.00 | 35.00 | |
| Short Term – Unallocated | 0.00 | 40.00 | [ICRA]A2+; upgraded from [ICRA]A3+ |
| **Total** | **575.00** | **425.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings upgrade and revision in outlook to Positive reflect the expected strong performance of Gokaldas Exports Limited (GEL) in the coming quarters on the back of its established market position and strong relationship enjoyed with large international customers, as illustrated by its order book position, and the healthy improvement in capital structure and liquidity position witnessed post the equity infusion in October 2021. Post the pandemic-induced business disruptions faced in the beginning of FY2021, GEL's performance has recovered steadily in the recent quarters (except in Q1 FY2022, which was constrained by the operational disruptions faced during the second wave of the pandemic). The growth in orders from existing large customers and new customers added had limited the revenue decline to around 10% in FY2021 and is expected to drive a growth of ~30% in the current fiscal (albeit on a smaller base). Given the favourable demand conditions and diversification initiatives undertaken, GEL's revenues are expected to register a healthy growth of more than 20% in the ensuing fiscals with the company in the process of expanding its capacities to meet customer requirements (though it needs to be noted that the performance remains sensitive to any pandemic-induced disruptions in key markets). While GEL's operating margins improved to around 10% in FY2021, it is expected to remain at around 10-11% in the near to medium term till the new capacities stabilise and operate at optimal levels. The margin expansion in FY2021 was supported by cost reduction measures and better efficiency, while the profitability in FY2020 was limited by retrospective withdrawal of MEIS[1] and a sharp increase in wage costs. In addition to better capacity utilisation of the expanded capacities, proposed product diversification and backward integration measures are also likely to drive improvement in profitability and return indicators over the medium term.

GEL's credit metrics and liquidity position witnessed a healthy improvement, primarily on the back of the Rs. 300-crore equity infusion made in October 2021 (through the Qualified Institutional Placement route). A portion of the funds have been utilised towards reducing debt levels, with the surplus to be utilised to meet incremental working capital and capacity expansion requirements. Reduction in net debt levels, coupled with the growth in operating profits is expected to result in key credit metrics including net debt[2] to operating profits and PBDITA[3] to interest and finance charges to be at around 1 times and 4.5 times, respectively in FY2022, as per ICRA's estimates. Despite the expected increase in working capital requirements with the growing scale of operations and the proposed capacity expansion to the tune of around Rs. 350 crore between FY2022 and FY2024, key credit metrics are expected to remain comfortable, driven by an anticipated growth in earnings. ICRA expects

*1 MEIS - Merchandise Exports from India Scheme*
*2 Net debt is adjusted for cash held and includes lease liabilities*
3 *PBDITA - Profit before depreciation, interest, tax and amortisation*

GEL's net debt to operating profits and PBDITA to interest and finance charges to be at around 1 times and 7 times each, respectively in FY2023 and FY2024. While the customer and geographical concentration risks remain, an expected steady increase in revenues from new customers is likely to reduce the sales concentration from the top five customers gradually over the medium term. GEL is also exposed to external risk factors, such as foreign exchange rate fluctuations, along with regulations and duty structures across the markets. Besides, the ratings consider intense competition from other major garment exporting countries that limits pricing flexibility, and the high working capital requirements inherent in the business.

## Key rating drivers and their description

## Credit strengths

**Established market position and diversified product offerings –** GEL enjoys a long presence in the apparel export business segment as it has been in operations for over three decades. 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 revenues over the years despite a few customer specific challenges.

**Strong customer base** – GEL enjoys established relationships with reputed global apparel retailers in the markets of North America and Europe, as illustrated by recurring orders received and a steady increase in 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.

**Comfortable financial profile –** GEL's credit metrics and liquidity position witnessed a healthy improvement in the recent past, backed by strong earnings witnessed in Q2 and Q3 of FY2022 and equity infusion of Rs. 300 crore in October 2021. Given the strong growth in earnings expected, GEL's leverage indicators and coverage metrics are likely to remain at comfortable levels over the medium term.

## Credit challenges

**Moderate concentration risks –** GEL's revenues remain susceptible to business concentration risk, as more than 70% of its revenues are generated from the US market. Further, customer concentration risk also remains at moderate levels with the top-5 customers accounting for around 75% of the total sales. However, 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 (with the diversification measures to be supported by the capacity expansion being undertaken).

**Limited pricing flexibility exposes earnings to price risk –** GEL's earnings remain exposed to fluctuations in raw material prices and 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. Further, with improved demand conditions witnessed across the product segments in the recent past, GEL's revenues and earnings are expected to remain steady in the coming quarters.

## Liquidity position: Strong

GEL's liquidity position is expected to remain strong, given the anticipated growth in earnings from operations and the recent Rs. 300-crore fund infusion. The same is despite the expected increase in working capital requirements and the proposed capital expenditure to be incurred. Free cash reserves and unutilised lines of credit together stood at ~Rs. 300 crore as on November 30, 2021). GEL is expected to generate cash accruals of more than Rs. 100 crore in FY2022 and Rs. 150 crore in FY2023, which along with the unutilised lines of credit and free cash reserves (which together stood at ~Rs. 300 crore as on November 30, 2021) should support its cash flows.

## Rating sensitivities

**Positive factors –** The ratings may be upgraded if the company registers a sustained healthy growth in revenues and earnings, which will further improve its competitive position and its business profile becomes more diversified with new customer addition or expansion into new geographies, while maintaining its strong credit metrics and liquidity position.

**Negative factors –** The outlook may be revised to Stable if there is any sustained pressure on GEL's operating performance 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 a revision in the rating outlook include net debt to OPBDITA exceeding 2.0 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Indian Textiles Industry – 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-1 |

## 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 the recent QIP in October 2021, the shareholding of Clear Wealth Consultancy Services LLP reduced to 23.72% and the remaining is held by institutional investors, corporate bodies, public and others.

## Key financial indicators

| GEL Consolidated | FY2020 | FY2021 | H1 FY2022 |
|---|---|---|---|
| Operating Income (Rs. crore) | 1,370.9 | 1,210.7 | 684.7 |
| PAT (Rs. crore) | 30.4 | 26.5 | 26.1 |
| OPBDITA/OI (%) | 6.3% | 8.4% | 10.2% |
| PAT/OI (%) | 2.2% | 2.2% | 3.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.1 | 2.4 | 2.6 |
| Total Debt/OPBDITA (times) | 5.1 | 4.7 | 3.9 |
| Interest Coverage (times) | 2.3 | 2.9 | 3.2 |

*Source: GEL; PAT: Profit after Tax; OPBDITA: 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 | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding as on September, 2021 (Rs. crore) | Date & Rating in | Date & Rating in FY2021 | | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | December 27, 2021 | October 06, 2020 | April 24,2020 | July 19, 2019 | July 30, 2018 |
| 1 | Fund-Based Limits | Short Term | 310.00 | - | [ICRA]A2+ | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3 |
| 2 | Fund Based – Term Loan | Long Term | 40.00 | 10.10 | [ICRA]A-(Positive) | [ICRA]BBB(Stable) | [ICRA]BBB(Stable) | [ICRA]BBB(Positive) | [ICRA]BBB-(Stable) |
| 3 | Unallocated | Long Term | 35.00 | - | [ICRA]A-(Positive) | - | | | |
| 4 | Unallocated | Short Term | 40.00 | - | [ICRA]A2+ | | | | |

*Source: GEL*

### Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Short Term - Fund Based | Very Simple |
| Long Term - Fund Based TL | Simple |
| Long Term - Unallocated | Not Applicable |
| Short Term - Unallocated | Not Applicable |

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 analysing 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: www.icra.in

## Annexure-1: Instrument details

| ISIN No/Bank Name | Instrument Name | Date of Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| Canara Bank | Working capital facilities | - | - | - | 140.00 | [ICRA]A2+ |
| Union Bank of India | Working capital facilities | - | - | - | 100.00 | [ICRA]A2+ |
| RBL Bank | Working capital facilities | - | - | - | 50.00 | [ICRA]A2+ |
| IndusInd Bank | Working capital facilities | - | - | - | 20.00 | [ICRA]A2+ |
| IndusInd Bank | Term Loan | May, 2020 | - | November, 2024 | 40.00 | [ICRA]A- (Positive) |
| NA | Unallocated | - | - | - | 35.00 | [ICRA]A- (Positive) |
| NA | Unallocated | - | - | - | 40.00 | [ICRA]A2+ |

*Source: GEL*

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| All Colour Garments Private Limited | 100% | Full Consolidation |
| SNS Clothing Private Limited | 100% | Full Consolidation |
| Vignesh Apparels Private Limited | 100% | Full Consolidation |
| Gokaldasexports Acharpura Private Limited | 100% | Full Consolidation |

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