

July 19, 2019

Gokaldas Exports Limited: Ratings upgraded to [ICRA]BBB(Positive)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans - Proposed	50.00	50.00	[ICRA]BBB(Positive) / upgraded from [ICRA]BBB-(Stable)
Short-term fund-based working capital facilities	525.00	525.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	575.00	575.00	

*Instrument details are provided in Annexure-1

Rationale

The revisions in ratings and outlook reflect the consistent improvement witnessed in the operational and financial performance of Gokaldas Exports Limited (GEL) in the recent quarters, illustrated by a healthy growth in revenues and earnings and an improved credit metrics. The improvement in GEL's performance is expected to continue over the medium term on the back of its strengthening operational profile with improving customer diversification and operating efficiency. Revenues grew by around 11% in FY2019, post a period of stagnant volumes, driven by strong order inflows from existing and new customers. While its operating profitability remains at moderate level, focused efforts taken towards streamlining capacities and process optimisation supported margins, which improved to 6.5% in FY2019 (from the breakeven levels in the preceding two fiscals). GEL's performance in FY2017 and FY2018 was primarily impacted by the loss of business from its key customer, resulting in under-utilisation of capacities and reduction in export incentives. ICRA expects GEL's revenues to register a growth of around 12-14% per annum and operating margins to improve to ~8% by FY2021, backed by the company's widening customer base and continued measures undertaken towards further improvement in operating efficiency. A steady growth in earnings has also supported improvement in GEL's credit metrics. Key ratios including net debt to operating profits and interest coverage are likely to improve to around 2.7 times and 3 times, respectively for FY2020. The same is despite the proposed cumulative expenditure of around Rs. 100 crore to be incurred in FY2020 and FY2021 towards automation and enhancement of capacities, which are likely to be partly debt funded. The ratings continue to derive comfort from GEL's long track of operations of over three decades in the woven garments export segment and its established relationship with large international players, aiding in repeat business. Revenues from new customers added during the recent fiscals have steadily increased and with the ongoing addition of customers, sales concentration from the top five customers is expected to reduce to less than ~70% by FY2021 (from around 80% witnessed in FY2019). The company is also exposed to external risk factors, such as foreign exchange rate fluctuations, along with regulations and duty structures across markets. Besides, the ratings consider the intense competition from other major garment exporting countries that limits pricing flexibility, and the high working capital requirements inherent in the business.

Outlook: Positive

ICRA believes that GEL's performance will continue to benefit from its established presence with its sizeable capacities and a strong customer base, as reflected in its growing order book position. The ratings could be upgraded if GEL continues to record healthy growth in revenues and earnings, supporting further improvement in its credit profile. The outlook may be revised to Stable if the earnings are lower than estimated or if the increase in debt levels is higher than expected (owing to higher capital expenditure or elongation of its working capital cycle), which would result in deterioration in coverage indicators and liquidity position.

Key rating drivers

Credit strengths

Established track record of operations with large production capacities and diversified product offerings - GEL enjoys a long presence in the apparel export business segment, having been in operations for over three decades. 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 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, which supports it in obtaining repeat orders. The volume off-take has remained steady as these brands are enjoying healthy value share in their respective markets. With the order book position remaining at healthy levels coupled with steady addition of new customers, revenues are likely to witness a consistent growth over the medium term. The expected shift in sourcing by large retailers from the competing supplier nations to India because of cost and quality factors are likely to support the long-term growth potential of the company.

Credit challenges

Business concentration risk remains high; widening customer base and established relationship mitigate the risk to some extent – GEL's top four customers contributed around 75% to its export revenues in FY2019. Thus, revenues and earnings depend on the performance of its key customers, apart from other external factors such as regulations and duty structures across the markets, with more than 70% of GEL's revenues derived from North America and Europe. The risk is mitigated to an extent by the established relationship enjoyed with its clientele, and the recent addition of new customers. The fact that two of the recently added customers have contributed around 25% to the revenues in FY2019 and the continued steps by GEL to further diversify its revenue base provide comfort.

Moderately high working capital intensity and low operating margins – Despite the recent improvement in GEL's performance, its credit metrics remain at moderate levels. The improvement in the same has been limited by the operating margins, which were lower than the industry average, and the relatively high working capital intensity in the business. Its operating profitability is likely to improve to around 8-9% over the medium term, with an expected steady improvement in its operating efficiency. With continuous efforts taken towards streamlining its working capital cycle to reduce short-term debt levels, GEL's financial profile is likely to improve over the medium term.

Liquidity position

GEL's liquidity position improved in FY2019 supported by the growth in earnings from operations and the equity infused in Q1 FY2019, which helped the company in reducing average utilisation of working capital facilities to around 87% in FY2019 (from more than 95% utilisation seen in the preceding fiscal). GEL also held cash balance of Rs. 143.6 crore at the end of March 2019, of which is Rs. 132.4 crore is encumbered cash (held as secondary collateral for the working-capital limits). Despite the funds required towards proposed capital expenditure and incremental working capital requirements, GEL's cash flows are expected to be supported by a steady growth in earnings from operations and funds generated from the sale of asset in Q1 FY2020 to the tune of around Rs. 32 crore.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Indian textiles industry – Apparels
Parent/Group Support	NA
Standalone/Consolidation	The ratings are based on the consolidated financial profile of the company. Details of the subsidiaries are 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 larger apparel exporters from India. GEL operates from more than 20 manufacturing facilities, primarily in and around Bangalore. The company caters to renowned brands in the markets of North America and Europe, serving their requirement 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, the shareholding of Clear Wealth Consultancy Services LLP has reduced to 32.64%.

Key financial indicators (Audited)

Fiscal	FY2018	FY2019
Operating Income (Rs. crore)	1,056.8	1,176.4
PAT (Rs. crore)	-41.6	39.6
OPBDITA/ OI (%)	0.2%	6.7%
RoCE (%)	-0.6%	11.9%
Total Debt/ TNW (times)	3.6	1.6
Total Debt/ OPBDITA (times)	287.9	4.8
Net Debt*/ OPBDITA (times)	191.4	3.0
Interest coverage (times)	0.0	2.4

**Note: Net debt is total debt adjusted for cash balances held*

Source: GEL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				July 2019	July 2018	Aug 2017	Jan 2017	
1 Term Loans - Proposed	Long Term	50.00	-	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	Withdrawn	[ICRA]BBB- (Stable)	
2 Fund-Based Limits	Short Term	525.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	

Source: GEL

Complexity level of the rated instrument:

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed term Loans	-	-	-	50.00	[ICRA]BBB(Positive)
NA	Short-term fund-based limits	-	-	-	525.00	[ICRA]A3+

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

Source: GEL

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