April 24, 2020

Gokaldas Exports Limited: Ratings reaffirmed at [ICRA]BBB/[ICRA]A3+; outlook revised to Stable

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 reaffirmed; outlook revised to Stable from Positive
Short-term fund-based working capital facilities	525.00	525.00	[ICRA]A3+ reaffirmed
Total	**575.00**	**575.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term rating outlook of Gokaldas Exports Limited (GEL) considers the likely moderation in the operating performance in the near term, given the adverse impact on demand conditions seen in key markets following the Covid-19 outbreak. The company's performance in FY2020 was steady, as reflected by the healthy volume growth witnessed during the major part of the fiscal. While the overall revenue growth in FY2020 is estimated to be more than 10% (despite the lower volumes in March 2020), earnings are expected to be weaker on the back of reduction in export incentives during the year. Despite lower earnings, credit metrics and liquidity position remained at adequate levels and are expected to remain in line with the category medians, going forward. Key ratios including net debt to operating profits and PBDITA[1] to interest and finance charges are estimated to be at around 2.8 times and 3.0, respectively for FY2020. The ratings continue to derive comfort from GEL's long track record of operations of over three decades in the woven garments export segment and its established relationship with large international players, aiding in repeat business. While revenues from new customers added during the recent fiscals have steadily increased, sales concentration from the top five customers is expected to reduce gradually over the medium term, also supported by the ongoing addition of large branded retailers. 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.

Sales volumes from March 2020 has been impacted owing to the postponement of orders by key export customers and the nationwide lockdown imposed in India. The apparel segment is expected to be more vulnerable, given its sensitivity to consumer demand and sentiment, as well as the labour-intensive nature of the apparel manufacturing operations. The strength of the recovery will be contingent on the duration and the extent of the pandemic, where a prolonged downturn in apparel demand will constrain revenues and earnings as the discretionary consumer spending is likely to be curtailed at least in Q1 FY2021. Weak global demand conditions are also likely to result in elongation of receivables cycle and some inventory build-up in the coming months. Nonetheless, GEL's liquidity position remains adequate, which is expected to aid it in meeting the near-term increase in funding requirements. Against this backdrop, ICRA will continue to monitor the developments and take appropriate rating action, when necessary.

[1] *PBDITA- Profit before depreciation, interest, tax and amortisation*

GEL is seeking a moratorium on payments from its lenders as a part of the Covid-19 regulatory package announced by the Reserve Bank of India (RBI) on March 27, 2020. Accordingly, some of the scheduled payment obligations were deferred as on March 31, 2020, in anticipation of formal approval from the lenders. Despite the missed payment and the absence of a formal approval from the lenders allowing for a payment relief, ICRA has not recognised this instance as a default as of now. This is based on ICRA's expectation that a formal approval for rescheduling the loan would be received soon, as permitted by the RBI as a part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by SEBI through its circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/53 dated March 30, 2020. However, it may be noted that if the lenders do not approve of the moratorium in due course, ICRA would review the above stance on default recognition.

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 as it has 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 support it in obtaining repeat orders. The volume off-take has remained steady over the years as these brands enjoy healthy value share in their respective markets. 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 revenue growth potential of the company.

Credit challenges

Expected moderation in operating performance in the near term – In line with the industry, GEL's revenues and earnings are expected to be adversely impacted in Q1 FY2021, owing to the prevalent tepid demand conditions following the Covid-19 outbreak. This, in turn, would result in moderation in coverage metrics and liquidity position during the period.

Limited pricing flexibility and business concentration risks – The company's earnings remain exposed to fluctuations in raw material prices and exchange rates on the back of intense competition, resulting in limited pricing flexibility. GEL faces competition not only from other large textile exporters from India, but also from other low-cost garment exporting countries, which limits its ability to improve prices and margins. 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 by GEL. The company's revenues remain susceptible to business concentration risks as more than 70% of its revenues is derived from North America and Europe. However, the risk is mitigated to an extent by the established relationship enjoyed with its clientele and the continued steps by GEL to further diversify its revenue base.

Liquidity position: Adequate

GEL's liquidity position is expected to remain adequate to meet its rising funding requirements, supported by free cash and bank balances as well as the buffer available in its working capital limits utilised, which together stood at around Rs. 85 crore as on March 31, 2020. The average working capital utilisation stood at around 85% during the year. While the liquidity buffer is expected to reduce in Q1 FY2021, a likely improvement in earnings in the subsequent quarters, coupled with cash reserves held and adequate unutilised lines of credit are likely to support the liquidity position of GEL in the coming quarters.

Rating sensitivities

Positive triggers – The ratings may be upgraded if GEL records a healthy growth in revenues and earnings in the coming quarters on the back of sustained recovery in demand, supporting an improvement in its credit metrics and liquidity position. Key ratios, which may trigger an upgrade include PBDITA/ interest improving to more than 3.5 times on a sustained basis.

Negative triggers – Pressure on GEL's ratings may emerge if there is a sustained pressure on revenues and earnings in the coming quarters owing to the Covid-19 outbreak, or if there is an elongation in its working capital cycle, which would adversely impact its credit metrics and liquidity position. Specific credit metrics, which may trigger a downgrade includes the company's PBDITA/interest and finance charges reducing below 2.5 times on a sustained basis.

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 largest 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 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 Outside Liabilities/ Tangible Net Worth (times)	5.0	2.4
Total Debt/ OPBDITA (times)	287.9	4.8
Net Debt*/ OPBDITA (times)	191.4	3.0
Interest coverage (times)	0.0	2.4
DSCR (times)	0.3	2.8

**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 (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 24-April 2020	Date & Rating in FY2020 19 July 2019	Date & Rating in FY2019 30 July 2018	Date & Rating in FY2018 23 Aug 2017
1	Term Loans - Proposed	Long Term	50.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	Withdrawn
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(Stable)
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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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.

For more information, visit www.icra.in

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