

October 06, 2020

Gokaldas Exports Limited: Ratings reaffirmed

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 (Stable) reaffirmed
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 ratings reaffirmation considers the expected steady operational and financial performance of Gokaldas Exports Limited (GEL) in the coming quarters, supported by its established market position with diversified product offerings and strong relationship enjoyed with large international customers in the US and European markets. While the operating performance was adversely impacted in March 2020 and the major portion of Q1 FY2021 because of the pandemic with disruption in operations and deferment of orders, there has been a steady recovery in volumes in the recent months, which is expected to support GEL's revenues and earnings in FY2021. Given the growth in the order book position witnessed from June 2020, ICRA expects GEL's revenue decline to be limited to less than 10% in FY2021. Further, GEL's operating profits¹ are expected to be better than the previous fiscal which was adversely impacted by the retrospective withdrawal of MEIS² and a sharp increase in wage costs. With the company able to pass on a portion of the same to its customers along with the cost optimisation measures undertaken, the operating margins in FY2021 are likely to be at around 6% against ~3% in the preceding fiscal. As a result, credit metrics are expected to improve in the current fiscal, post the moderation witnessed in FY2020 owing to lower earnings from operations and firm debt levels. Key credit metrics including net debt to operating profits and PBDITA³ to interest and finance charges are expected to be at around 3.0 times each in FY2021. While GEL's order book has recovered in the recent months, it remains sensitive to any future disruptions in business on account of the pandemic-related demand in key markets. With a steady increase in revenues from new customers added during the recent fiscals, sales concentration from the top five customers is expected to reduce gradually over the medium term. The company 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

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

¹ Operating profits have been adjusted for the impact of Ind AS 116

² MEIS - Merchandise Exports from India Scheme

³ PBDITA - Profit before depreciation, interest, tax and amortisation

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 offtake 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

Moderation in revenues and earnings witnessed in recent quarters; nonetheless, performance likely to improve, going forward – While GEL's performance was adversely impacted in H2 FY2020 owing to the retrospective withdrawal of MEIS and a sharp increase in wage cost, pandemic-related demand disruptions had an adverse impact during the major portion of Q1 FY2021. Nevertheless, with the recovery in demand scenario witnessed coupled with the expected improvement in earnings from the FY2020 levels, GEL's credit metrics and liquidity position are likely to remain at adequate levels in the coming quarters.

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 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. 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 risk 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 taken by GEL to further diversify its revenue base.

Liquidity position: Adequate

GEL's liquidity position is expected to remain adequate, supported by free cash reserves (including liquid investments) as well as unutilised lines of credit, which together stood at around Rs. 90 crore as on August 31, 2020. The average working capital utilisation stood at around 80% during the past twelve months. While working capital funding requirements are expected to increase in the coming quarters in line with the increasing scale of operations, GEL's liquidity position is expected to be supported by the free cash reserves held and adequate unutilised lines of credit along with a likely improvement in earnings 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 a sustained recovery in demand, improving 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, 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 include 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 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, the shareholding of Clear Wealth Consultancy Services LLP reduced to 32.64%.

Key financial indicators (Audited)

Fiscal	FY2019	FY2020
Operating Income (Rs. crore)	1,158.86	1,378.17
PAT (Rs. crore)	25.08	30.39
OPBDITA/ OI (%)	5.33%	3.15%
PAT/OI (%)	2.16%	2.20%
Total Outside Liabilities/ Tangible Net Worth (times)	2.37	3.08
Total Debt/ OPBDITA (times)	6.16	9.01
Net Debt*/ OPBDITA (times)	3.84	4.70
Interest coverage (times)	2.35	2.85

* Net debt is total debt adjusted for cash balances held

Note: OPBDITA has been adjusted for the impact of Ind AS 116

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	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Term Loans - Proposed	Long Term	50.00	-	[ICRA]BBB (Stable) Oct 6, 2020	[ICRA]BBB (Stable) April 24, 2020	[ICRA]BBB (Positive) 19 July 2019	[ICRA]BBB- (Stable) 30 July 2018	Withdrawn 23 Aug 2017	
2 Fund-Based Limits	Short Term	525.00	-	[ICRA]A3+	[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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