December 10, 2019

Gokaldas Intimatewear Pvt Ltd: Ratings assigned at [ICRA]A-(Stable)/A2+

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based	40.00	[ICRA]A-(Stable); assigned
Short term – Non-fund-based interchangeable with long-term fund-based	(4.25)	[ICRA]A2+; assigned
Total	**40.00**	

**Instrument details are provided in Annexure-1;*

Rationale

The assigned ratings take into consideration the established presence of Gokaldas Intimatewear Pvt. Ltd. (GIPL/ Enamor) in the branded women's innerwear market in India with its premium lingerie brand - Enamor enjoying a healthy brand recall. The ratings derive strength from its strong multi-channel distribution network with an expanding retail footprint across India and a comfortable financial risk profile characterised by comfortable credit metrics and an adequate liquidity position. GIPL's operating performance has been steady over the years, with its revenues witnessing a compounded annual growth of around 11% over the last five years (the compounded annual growth would have been higher than 11% if not for the impact of demonetisation of high value currency in FY2017). Besides, the healthy growth prospects in the Indian lingerie market with growing brand consciousness among women and increasing disposable income weighs positively on the ratings. The ratings also favourably factors in the company's professional management team having long experience in this line of business and the recent buy-out of the company by the global private equity firm, Advent International (AI) which also has significant experience in the innerwear manufacturing business.

The ratings, however, are constrained by the company's moderate scale of operations with revenues derived from a single brand and with presence largely in the premium lingerie segment. Nevertheless, to improve its product diversification, the company is focussing on increasing its revenues share from its athleisure segment which witnessed steady growth in FY2019 and H1FY2020. The rating is also constrained by the high competition in the Indian lingerie market with presence of large players in the organised segment besides the presence of numerous unorganised players.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GIPL will continue to benefit from the experienced professional management, and from its strong brand image in the premium brassiere segment in India.

Key rating drivers and their description

Credit strengths

Established brand presence in India – With commencement of operations in 2003, the company's Enamor brand has become a sizable home-grown lingerie brand in India. It has a strong brand image in the mid-premium and premium brassiere segment in India offering nearly 50 odd styles of brassiere in both regular and fashion segments.

Robust distribution network with pan India presence – The company has pan India presence with ~4500 point of sales across India. It derives around 30% of its revenues each from North, South and West of India and remaining from East India. Its customers include all major national chain stores (NCS) like Shoppers Stop, Reliance Trends, Lifestyle, Pantaloons and Central Stores, and around 90 distributors who in turn sell to ~4500 multi-brand retail outlets (MBOs). It also owns 20 EBOs across India located majorly in large cities. These apart, some portion of the company's sales is also through its own and third-party online platforms.

Comfortable capital structure and debt-coverage metrics – With fresh infusion of equity by AI in September 2019, the company's net worth improved to Rs 76.6 crore as on September 30, 2019 and the company's gearing improved to 0.5 times as on September 30, 2019. The debt-coverage indicators are comfortable in the absence of term loan repayment obligation and with stable working capital debt levels along with improved profitability.

Healthy growth prospects in the Indian lingerie market - The inner wear segment is the potential growth category under apparels on the back of growing demand for lingerie sets, rising middle class population and increasing number of independent women. The growing demand is majorly on account of shift of demand from unbranded products to branded products.

Credit challenges

Moderate scale of operations –The company's scale of operations remains moderate with entire revenues derived from a single brand and around 75% of its revenues derived from the brassiere segment. Its market share is also restricted to only ~15% of the lingerie market with its presence majorly in the mid-premium and premium segments.

High product concentration in a competitive industry – While GIPL has expanded its product portfolio over the years to offer complete range of women's innerwear, it continues to be present in a small segment of the overall branded apparel industry with a single product segment, brassieres accounting for a major portion of its revenues. ICRA notes that the competition has been steadily intensifying in the women's innerwear market due to increased focus of domestic manufacturers on manufacturing branded innerwear products with high expenditure on brand-building and entry of new players through online retail channels. Going forward, while the company is expected to target diversification of its revenues and increase its presence in the athleisure segment in the medium term, its ability to achieve the same given the intensifying competition in these segments remains to be seen.

Liquidity position: Adequate

The company's liquidity position improved in FY2019 and YTD FY2020 supported by growth in earnings from operations as well as the equity infused in Q2FY2020 which resulted in the company maintaining cash balances of Rs 25.2 crore as on September 30, 2019. The working capital limit had been utilized to the extent of around 90% over the past twelve months ending September 30, 2019. However, going forward, backed by its earnings from operations and the cash balances of ~Rs 20.0 crore, the incremental working capital requirements and capital expenditure requirement are expected to be adequately supported.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in its scale and market share in the women's innerwear segment while diversifying its brand and product portfolio, along with improvement in its profit margins.

Negative triggers – Negative pressure on the company's ratings could arise if there is weakening in the company's competitive position resulting in either a decline in its market share or profit margins. Correspondingly, any deterioration in the company's ROCE (excluding cash and liquid investments) below 15% could result in downgrade pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textile Industry - Apparels
Parent/Group Support	-
Consolidation/Standalone	Standalone

About the company

Incorporated in 2001, GIPL is a manufacturer of women's premium lingerie under its brand, Enamor. Started as a joint venture with Barbara of France in 2001, Enamor has become a home-grown leading premium lingerie brand in India and at present, the company owns 20 EBOs and has over 4500 points of sales across India, mainly in large cities. The company also manufactures sportswear, nightwear and athleisure wear under the same brand, Enamor. The company's facilities are located in Bangalore and its products are sold across India through NCS, EBOs, distributors and also through own and third-party online platforms.

In September 2019, AI bought-out entire stake in this company from its erstwhile promoters and private equity investors, India Alternatives Private Equity Fund and Faering Capital India Evolving Fund, through its subsidiary Varenna Holdings Limited.

In FY2019, the company reported a net profit of Rs. 7.6 crore on an operating income of Rs. 193.1 crore compared to a net profit of Rs. 3.6 crore on an operating income of Rs. 159.6 crore in the previous year.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	159.6	193.1
PAT (Rs. crore)	3.6	7.6
OPBDIT/OI (%)	7.4	9.5
RoCE (%)	14.0	20.2
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.5
Total Debt/OPBDIT (times)	3.2	2.0
Interest Coverage (times)	2.5	3.5
DSCR	1.9	2.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on March 31, 2019	Rating	FY2019	FY2018	FY2017
					10-Dec-2019			
1	Cash Credit	Long Term	40.00	-	[ICRA]A- (Stable)	-	-	-
2	Letter of Credit	Short Term	(4.00)	-	[ICRA]A2+	-	-	-
3	Bank Guarantee	Short Term	(0.25)	-	[ICRA]A2+			

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	40.00	[ICRA]A-(Stable)
-	Letter of Credit	-	-	-	(4.00)	[ICRA]A2+
-	Bank Guarantee	-	-	-	(0.25)	[ICRA]A2+

Source: GIPL

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About ICRA Limited:

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