

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



## Rating Rationale

July 14, 2022 | Mumbai

### Gokaldas Exports Limited

'CRISIL A/Positive/CRISIL A1' assigned to Bank Debt

#### Rating Action

Total Bank Loan Facilities Rated	Rs.425 Crore
Long Term Rating	CRISIL A/Positive (Assigned)
Short Term Rating	CRISIL A1 (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments &amp; Bank Facilities

#### Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL A/Positive/CRISIL A1' ratings to the bank facilities of Gokaldas Exports Limited (GEL).

The rating reflects GEL's established market position and a long track record in the apparel industry, comfortable working capital cycle, well-established customer base facilitating geographical diversification in revenues, and strong financial risk profile. These strengths are partially offset by its presence in a highly fragmented industry with limited size and vulnerability of operating margin to fluctuations in forex rates.

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of GEL, All Colour Garments Private Limited, SNS Clothing Private Limited, Vignesh Apparels Private Limited and Gokaldas Exports Acharpura Private Limited. This is because all these entities, together referred as the group, operate in the same industry, and have operational and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

#### Key Rating Drivers & Detailed Description

##### Strength

**Established market position and a long track record in the apparel industry:** GEL healthy scale provides it an operating flexibility in an intensely competitive industry. The company has a strong business profile with a presence across manufacturing value chain and recorded a revenue of Rs.1800 crores in the fiscal 2022. Further, it also benefits from the management's expertise in regard to understanding of market dynamics, and healthy relations with customers, suppliers and other stakeholders which will continue to support the business.

**Comfortable working capital cycle:** Gross current assets were at 125-151 days over the three fiscal ended March 31, 2022. Its working capital management is reflected in its gross current assets (GCA) of 129 days as of March 31, 2022, as against over 151 days GCAs of some of its peers. GEL enjoys established relationships with reputed global apparel retailers in the markets of North America and Europe, coupled with recurring orders received and a steady increase in wallet share with key customers.

**Well established customer base along with geographical diversification in revenues:** GEL has long-standing relationships with its customers and suppliers. Its customers include some of the reputed global apparel retailers in the markets of North America and Europe. GEL caters to a wide number of clients overseas and the top 10 customers generate revenue of about 90% in fiscal 2022. Over 90% of its revenue have been from exports. Diversity in geographical reach and clientele should continue to support the business risk profile of the company.

**Strong financial risk profile:** GEL's capital structure has been strong with a limited reliance on external funds yielding gearing of 0.08x and total outside liabilities to adj tangible net worth (TOL/ANW) of 0.69 for the year ending on 31st March 2022. The infusion of funds worth Rs.300 crore in October 2021 through qualified institutional placement has improved the financial risk profile of the company. GEL's debt protection measures have also been strong with interest coverage and net cash accrual to total debt (NCATD) ratio being healthy at 5.1 times and 2.8 times for fiscal 2022. GEL debt protection measures are expected to remain at a similar level over the medium term.

##### Weakness

**Presence in a highly fragmented industry:** The industry is highly fragmented and competitive, with a large number of unorganized players in the market. Such high fragmentation limits the pricing flexibility and bargaining power of the players. Also, the threat from large integrated players in the form of capacity additions limits the growth. The industry is exposed to the risk low entry barriers. The small initial investment and the low complexity of operations have resulted in existence of innumerable entities, much smaller in size, leading to significant fragmentation.

**Vulnerability of operating margin to fluctuations in forex rates:** Since majority of revenue comes from the international market, any sharp fluctuation in forex rates affects realizations and accrual. This exposes the operating margin to fluctuations in forex rates.

#### **Liquidity: Strong**

Bank limit utilization is comfortable at around 46.71 percent for the past twelve months ended May 2022 and the unutilized portion acts as a cushion for the company. Cash accruals are expected to be over Rs.170 crore which is sufficient against term debt obligation of Rs. 20-25 crore over the medium term. Bank limit utilization is expected to decrease going forward whilst maintaining an adequate cash buffer.

#### **Outlook: Positive**

CRISIL Ratings believe GEL will continue to benefit from the extensive experience of the management and established relationships with clients.

#### **Rating Sensitivity Factors**

##### **Upward factor**

- Sustained improvement in scale of operation by 22% and sustenance of operating margin, leading to higher cash accruals
- Improvement in ROCE beyond 12% for the medium term

##### **Downward factor**

- Stretch in the working capital cycle
- Decline in net cash accruals below Rs.100 crore in case of decline in revenue or operating profits

#### **About the Company**

GEL was established as partnership firm by Mr. Jhamandas H. Hinduja in 1978 and later got converted in public limited in 2004. It is engaged in manufacturing and exporting of readymade garments for men, women, and children and caters to the needs of several leading international fashion brands and retailers. In fiscal 2018, 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 which has reduced to 23.66% post QIP infusion in October 2021. The company has more than 20 manufacturing facilities, primarily in and around Bangalore.

#### **Key Financial Indicators**

As on/for the period ended March 31	Unit	2022	2021
Operating income	Rs.Crore	1790.32	1,210.73
Reported profit after tax	Rs.Crore	117.08	19.68
PAT margins	%	6.5	2.19
Adjusted Debt/Adjusted Networkth	Times	0.08	1.27
Interest coverage	Times	5.10	2.94

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Post Shipment Credit	NA	NA	NA	100	NA	CRISIL A/Positive
NA	Term Loan	NA	NA	May 2026	40	NA	CRISIL A/Positive
NA	Working Capital Facility	NA	NA	NA	245	NA	CRISIL A/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	35	NA	CRISIL A/Positive
NA	Proposed Non Fund based limits	NA	NA	NA	5	NA	CRISIL A1

#### **Annexure – List of Entities Consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Gokaldas Exports Limited	100%	Under a common management, Significant business and operational and financial

		linkages
All Colour Garments Private Limited	100%	Under a common management, Significant business and operational and financial linkages
Vignesh Apparels Private Limited	100%	Under a common management, Significant business and operational and financial linkages
Gokaldas Exports Acharpura Private Limited	100%	Under a common management, Significant business and operational and financial linkages
, SNS Clothing Private Limited	100%	Under a common management, Significant business and operational and financial linkages

**Annexure - Rating History for last 3 Years**

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	420.0	CRISIL A/Positive		--		--		--		--	--
Non-Fund Based Facilities	ST	5.0	CRISIL A1		--		--		--		--	--

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Post Shipment Credit	100	HDFC Bank Limited	CRISIL A/Positive
Proposed Long Term Bank Loan Facility	35	Not Applicable	CRISIL A/Positive
Proposed Non Fund based limits	5	Not Applicable	CRISIL A1
Term Loan	40	IndusInd Bank Limited	CRISIL A/Positive
Working Capital Facility	100	State Bank of India	CRISIL A/Positive
Working Capital Facility	25	The Federal Bank Limited	CRISIL A/Positive
Working Capital Facility	50	Union Bank of India	CRISIL A/Positive
Working Capital Facility	50	RBL Bank Limited	CRISIL A/Positive
Working Capital Facility	20	IndusInd Bank Limited	CRISIL A/Positive

This Annexure has been updated on 14-Jul-2022 in line with the lender-wise facility details as on 14-Jul-2022 received from the rated entity.

**Criteria Details**

<b>Links to related criteria</b>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating criteria on Financial risk framework for manufacturing and services sector companies</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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