

Rating Rationale

February 12, 2024 | Mumbai

Gokaldas Exports Limited

Ratings reaffirmed at 'CRISIL A/Positive/CRISIL A1'

Rating Action

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

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Gokaldas Exports Ltd (GEL, part of Gokaldas Group) at 'CRISIL A/Positive/CRISIL A1'.

CRISIL Ratings has taken note of the corporate announcement by GEL, on February 1, 2024, on the execution of a share swap agreement with Matrix Clothing Pvt Ltd (MCPL), to acquire 100% of equity share capital of Matrix Design & Industries Pvt Ltd (MDIPL), for a total enterprise value of Rs 489 crore, subject to approvals from shareholders and other regulatory authorities. The consideration is expected to be met through share swap to the tune of Rs 247.5 crore and cash consideration of Rs 241.5 crore, funded partially by internal sources and rest through external debt in the near term. The loan will be eventually replaced with equity over the coming quarters. Moreover, the board has also approved additional fund raising of Rs 600 crore, subject to all approvals. While synergies arising out of the acquisition, backed by complementary product, customer and geographic profiles, should strengthen the business profile, CRISIL Ratings believes that there would be no material impact on the credit risk profile of the group. Timely completion of the transaction, closure of near-term loans, if any by way of equity infusion, and synergies from the acquisition are key monitorables.

The ratings reflect the established market position of GEL and its long track record in the apparel industry. The ratings also consider the comfortable working capital cycle, well-established customer base and geographic reach, and strong financial risk profile of the group. These strengths are partially offset by the limited size of operations and exposure to intense competition and fluctuations in foreign exchange (forex) rates.

Analytical approach

CRISIL Ratings has combined the business and financial risk profiles of GEL and its wholly owned subsidiaries, All Colour Garments Pvt Ltd, SNS Clothing Pvt Ltd, Vignesh Apparels Pvt Ltd, Gokaldas Exports Acharpura Pvt Ltd, Gokaldas Exports FZCO, Nava Apparel LLC-FZ and its stepdown subsidiaries (Atraco Logistics LLC, Ashton Mumbasa Apparel EPZ Ltd and Atraco Industrial Enterprise). This is because all these entities, together referred as the Gokaldas 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

Strengths:

- Established market position and long track record in the apparel industry:** GEL benefits from its established relationships with reputed global apparel retailers in North America and Europe, recurring orders and steady increase in wallet share with key customers. The company has a strong business profile, marked by presence across the manufacturing value chain and posted revenue from operations of Rs 2,222 crore in fiscal 2023. This was mainly driven by increase in volume, from 23 million pieces in fiscal 2022, to 27.9 million pieces in fiscal 2023. Despite volatility in the economic scenario in US and Europe, GEL recorded revenue of Rs 1,566 crore for the first nine months of fiscal 2024. Post-acquisition of MCPL and the Atraco Group, and synergies expected in the coming quarters, operating performance should improve over the medium term.
- Comfortable working capital cycle:** Gross current assets ranged between 85 and 150 days over the three fiscals ended March 31, 2023, driven by receivables of 20-30 days and inventory of around 55 days. GCAs are likely to be at

130-140 days over the medium term, despite the acquisition, backed by efficient control over inventory and receivables.

- **Well-established customer base and geographical diversification in revenue:** GEL has longstanding relationships with its customers and suppliers. Customers include reputed global apparel retailers in North America and Europe. Fashion wear contributed to 46% of sales in fiscal 2023, as compared to 39% in fiscal 2022, followed by outerwear (36%) and bottom wear (9%). Over 90% of revenue came from exports, with Northern America accounting for 84%, followed by Asia at 11%. Post the acquisition, with complementary product, customer and geographic profiles of the Atraco group, diversity in geographical reach and clientele will support the overall business risk profile.
- **Strong financial risk profile:** The capital structure is aided by a limited reliance on external debt, yielding gearing of 0.04 time and total outside liabilities to adjusted networth ratio of 0.48 time, as on March 31, 2023. Post the acquisition of Atraco, which was funded via debt of around Rs 332 crore (USD 40 million), and likelihood of a bridge loan to fund the Matrix acquisition, leverage levels could increase moderately. Gearing though is likely to remain below 1 time as on March 31, 2024, and improve over the medium term. Debt protection metrics are also comfortable, with interest coverage and net cash accrual to total debt (NCATD) ratios at 10.53 times and 6.90 times, respectively, for fiscal 2023. The metrics are likely to remain strong over the medium term.

Weaknesses:

- **Presence in a highly fragmented industry:** The industry is highly competitive, marked by presence of several large and mid-sized players. Such fragmentation limits the pricing flexibility and bargaining power of players. Threat from large integrated players, in the form of capacity additions, also curtails growth. Moderate entry barriers and complexity of operations have attracted innumerable entities to the textile exports business.
- **Vulnerability of operating margin to fluctuations in forex rates:** As the group derives bulk of revenue from the international market, any sharp unfavorable fluctuation in forex rates can adversely affect realisations and accrual. Hence, operating margin remains susceptible to fluctuations in forex rates.

Liquidity: Strong

Bank limit of Rs 345 crore was utilised negligibly, at around 3.4% over the 12 months ended September 30, 2023. Net cash accrual of Rs 244 crore was reported for fiscal 2023, against nominal debt obligation. The group had unencumbered cash and liquid assets worth more than Rs 500 crore as on September 30, 2023. Net debt of the group is projected at Rs 200-225 crore for fiscal 2024. Low leverage, large net cash accrual, available cushion in the bank limit and unencumbered cash and liquid assets support liquidity.

Outlook: Positive

CRISIL Ratings believes the overall credit profile of GEL should improve, backed by inherent strength in business and synergies from the acquisitions concluded recently.

Rating sensitivity factors

Upward factors:

- Synergies from recent acquisitions and strength in the inherent business of GEL, with operating profit of above Rs 250 crore
- Sustained financial risk profile with healthy leverage and liquidity
- Timely completion of acquisitions and raising of equity to fund the bridge loan

Downward factors:

- Lower-than-expected scale up in operations due to subdued demand or delay in achieving synergies from acquired businesses, weakening the overall business risk profile
- Higher reliance on external debt to fund capex or acquisitions, exerting pressure on the financial risk profile, with expected debt to EBITDA of above 2.5 times

About the company

GEL was formed as a partnership firm by Mr Jhamandas H Hinduja in 1978, and converted into a public limited company in 2004. The company manufactures and exports readymade garments for men, women, and children, and caters to 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. The latter holds 23.66% stake in the company, post the qualified institutional placement in October 2021. The company has more than 20 manufacturing facilities in and around Bangalore.

Key financial indicators

As on / for the period ended March 31	Unit	2023	2022
Operating income	Rs crore	2,222.20	1,790.32
Reported profit after tax	Rs crore	172.97	117.08
PAT margin	%	7.78	6.54
Adjusted debt/Adjusted networth	Times	0.04	0.09
Interest coverage	Times	10.53	5.15

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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Working capital facility	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 Ltd	100%	Under a common management, Significant business and operational and financial linkages
All Colour Garments Pvt Ltd	100%	Under a common management, Significant business and operational and financial linkages
Vignesh Apparels Pvt Ltd	100%	Under a common management, Significant business and operational and financial linkages
Gokaldas Exports Acharpura Pvt Ltd	100%	Under a common management, Significant business and operational and financial linkages
SNS Clothing Pvt Ltd	100%	Under a common management, Significant business and operational and financial linkages
Nava Apparel LLC	100%	Under a common management, Significant business and operational and financial linkages
Gokaldas Exports FZCO	100%	Under a common management, Significant business and operational and financial linkages
Atraco Industrial Enterprise	100%	Under a common management, Significant business and operational and financial linkages
Atraco Logistics LLC,	100%	Under a common management, Significant business and operational and financial linkages
Ashton Mumbasa Apparel EPZ Ltd	100%	Under a common management, Significant business and operational and financial linkages

Annexure - Rating History for last 3 Years

		Current		2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	420.0	CRISIL A/Positive	12-01-24	CRISIL A/Positive	05-12-23	CRISIL A/Watch Developing	03-08-22	CRISIL A/Positive		--	--
			--		--	06-09-23	CRISIL A/Watch Developing	14-07-22	CRISIL A/Positive		--	--
Non-Fund Based Facilities	ST	5.0	CRISIL A1	12-01-24	CRISIL A1	05-12-23	CRISIL A1/Watch Developing	03-08-22	CRISIL A1		--	--
			--		--	06-09-23	CRISIL A1/Watch Developing	14-07-22	CRISIL A1		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
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	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
Working Capital Facility	100	HDFC 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

Criteria Details

Links to related criteria
Rating criteria for manufaturing and service sector companies
Rating Criteria for Cotton Textile Industry
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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