

gokaldas exports ltd

GEL/SEC/2023-24/56

September 07, 2023

BSE Limited
Phiroze Jeejeebhoy Towers
25th Floor, Dalal Street,
Mumbai – 400 001

National Stock Exchange of India Limited
The Exchange Plaza
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051

Scrip Code - 532630

Scrip Code: GOKEX

Dear Sir / Madam,

Sub: Credit Rating

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Schedule III Part A, we would like to inform that CRISIL Ratings has placed the long-term facilities of the Company to CRISIL A/Watch Developing (Placed on 'Rating Watch with Developing Implications') and short-term facilities to CRISIL A1/Watch Developing (Placed on 'Rating Watch with Developing Implications'), post announcement of the material event (acquisition) by the Company. Rating rationale is enclosed.

This is for your information and records.

Thanking you,

Yours truly,

For Gokaldas Exports Limited

Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above



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Rating Rationale

September 06, 2023 | Mumbai

Gokaldas Exports Limited

Ratings placed on 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	Rs.425 Crore
Long Term Rating	CRISIL A/Watch Developing (Placed on 'Rating Watch with Developing Implications')
Short Term Rating	CRISIL A1/Watch Developing (Placed on 'Rating Watch with Developing Implications')

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 placed its ratings on the bank facilities of Gokaldas Exports Limited (GEL) on '**Rating Watch with Developing Implications**'.

The ratings are placed on watch following the corporate announcement made by GEL on August 28, 2023. As per the announcement, GEL through its wholly owned subsidiaries has entered into an agreement to acquire Atraco Group, a UAE based garment manufacturer for a sale consideration of 55 million USD funded by a mix of debt and internal accruals. The management expects the transaction to be completed by October 2023. Atraco group is an operational and profitable entity in the middle east with a control over manufacturing facilities in Kenya and Ethiopia; as conveyed by the management; the acquisition is expected to have strong operational synergies over the medium term. CRISIL Rating will resolve the watch and take appropriate rating action, if warranted, once the transaction is concluded and detailed information regarding the business and financial risk profile of the post acquisition-consolidated entity is available.

CRISIL Ratings believes that GEL has a strong liquidity position to carry out the transaction with unencumbered cash and liquid assets up to Rs 360 crore as on 31st March 2023.

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

Strengths:

Established market position and a long track record in the apparel industry: 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. The company has a strong business profile with a presence across manufacturing value chain and recorded a revenue of Rs.2247 crores in the fiscal 2023. This was mainly contributed through increase in volumes from 23 million pieces in fiscal 2022 to 27.9 million pieces in fiscal 2023. Despite the volatile economic scenario in the key US and European markets, GEL had recorded revenues of Rs 522 crore for Q1FY 24. Operating performance is expected to be sustained during the medium term

Comfortable working capital cycle: Gross current assets were at 125-150 days over the three fiscal ended March 31, 2023 driven by 20-30 days of receivables and around 90 days of inventory. Gross current assets are expected to remain around 130-140 days over the medium term backed by efficient control over inventory management and receivables.

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. Fashion wear contributed to higher sales of 40% in comparison to previous fiscal of 39% followed by outerwear at 36% and bottom wear at 9%. Over 90% of its revenue have been from exports with Northern America contributes to 84% followed by Asia at 11%. 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 0.04 times and total outside liabilities to adj tangible net worth (TOL/ANW) of 0.67 as on 31st March 2023. Leverage levels are expected to remain healthy despite the debt funded acquisition in progress. GEL's debt protection measures have also been strong with interest coverage and net cash accrual to total debt (NCATD) ratio being healthy at 13 times and 6.90 times for fiscal 2023 and likely to remain strong over the medium term.

Weaknesses:

Presence in a highly fragmented industry: The industry is highly fragmented and competitive, with 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 moderate entry barriers and low complexity of operations have resulted in existence of innumerable entities, leading to significant fragmentation and competition in the industry.

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 nominal at around 2 percent (Overall working capital limit of Rs 345 crores) for the past twelve months ended May 2023 and the unutilized portion acts as a cushion for the company. Net cash accruals for FY 23 was recorded at Rs 244 crore against nominal repayment obligations. Unencumbered cash and liquid assets were at Rs 360 crore as on March 31, 2023. Low leverage levels; large net cash accruals, un-availed working capital lines and unencumbered cash and liquid assets supports liquidity profile

Rating Sensitivity factors

Upward factors

- * Sustained improvement in scale of operation and sustenance of operating margin above 12%, leading to higher cash accruals
- * Sustenance of healthy working capital cycle and strong financial risk profile with healthy leverage levels and strong liquidity sustained
- * Completion of acquisition of Atraco on a timely basis with consolidation of operations in Q4 FY 24.

Downward factors

- * Decline in net cash accruals below Rs. 100 crore in case of decline in revenue or operating profits
- * Higher than expected debt component or stretch in working capital cycle or significant moderation in financial flexibility weakens the financial risk profile

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	2023	2022
Operating income	Rs.Crore	2247.22	1790.32
Reported profit after tax	Rs.Crore	172.96	117.08
PAT margins	%	7.69	6.54
Adjusted Debt/Adjusted Networkth	Times	0.04	0.08
Interest coverage	Times	11.74	5.10

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 instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	35	NA	CRISIL A/Watch Developing
NA	Proposed Non Fund based limits	NA	NA	NA	5	NA	CRISIL A1/Watch Developing
NA	Term Loan	NA	NA	May-26	40	NA	CRISIL A/Watch Developing
NA	Working Capital Facility	NA	NA	NA	100	NA	CRISIL A/Watch Developing
NA	Working Capital Facility	NA	NA	NA	245	NA	CRISIL A/Watch Developing

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			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	420.0	CRISIL A/Watch Developing		--	03-08-22	CRISIL A/Positive		--		--	--
			--	--	14-07-22	CRISIL A/Positive		--		--	--	
Non-Fund Based Facilities	ST	5.0	CRISIL A1/Watch Developing		--	03-08-22	CRISIL A1		--		--	--
			--	--	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/Watch Developing
Proposed Non Fund based limits	5	Not Applicable	CRISIL A1/Watch Developing
Term Loan	40	IndusInd Bank Limited	CRISIL A/Watch Developing
Working Capital Facility	100	State Bank of India	CRISIL A/Watch Developing
Working Capital Facility	25	The Federal Bank Limited	CRISIL A/Watch Developing
Working Capital Facility	50	Union Bank of India	CRISIL A/Watch Developing
Working Capital Facility	50	RBL Bank Limited	CRISIL A/Watch Developing
Working Capital Facility	20	IndusInd Bank Limited	CRISIL A/Watch Developing
Working Capital Facility	100	HDFC Bank Limited	CRISIL A/Watch Developing

Criteria Details

Links to related criteria
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria on Financial risk framework for manufacturing and services sector companies
Understanding CRISILs Ratings and Rating Scales
CRISILs Criteria for Consolidation

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