

gokaldas exports ltd

GEL/SEC/2023-24/83

January 14, 2024

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 and further to our intimation dated September 07, 2023, we would like to inform that CRISIL Ratings ("CRISIL") has removed its ratings on the bank facilities of the Company from '**Rating Watch with Developing Implications**' and has reaffirmed the ratings at '**CRISIL A/CRISIL A1**' and has assigned a '**Positive**' outlook to the long-term rating. Rating rationale is enclosed.

Please take this intimation on record.

Thanking you,

Yours truly,

For Gokaldas Exports Limited

Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above



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Rating Rationale

January 12, 2024 | Mumbai

Gokaldas Exports Limited

Ratings removed from 'Watch Developing'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.425 Crore
Long Term Rating	CRISIL A/Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1 (Removed from 'Rating Watch with Developing Implications'; Rating 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 removed its ratings on the bank facilities of Gokaldas Exports Limited (GEL, part of Gokaldas Group) from '**Rating Watch with Developing Implications**' and has reaffirmed the ratings at 'CRISIL A/CRISIL A1' and has assigned a '**Positive**' outlook to the long-term rating.

The ratings of GEL were earlier placed on 'Watch with Developing Implications' following the announcement on August 28 2023 indicating 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 ratings are now being removed from "Watch with Developing Implications" following the completion of the acquisition transaction as per the corporate announcement date January 03, 2024. Pending transaction, which is a minor portion of the transaction, is expected to be completed by February 2024. Further, the management of GEL indicated the consolidated operations will start from Q4 FY24 and operational synergies between GEL and Atraco will start reaping benefits from fiscal 2025 onwards. CRISIL Ratings will monitor the progress and will take a suitable rating action if warranted.

Positive outlook reflects expected strengthening of the business risk profile backed by inherent strength of GEL's business and synergies expected out of acquisition. Atraco group has a well established business with ~ USD 100 million in revenues and complementary product and geography profile to GEL's existing portfolio. This coupled with improvement in capacity utilisation of newly commenced manufacturing facilities and expected growth in GEL's portfolio should strengthen revenue growth, profitability and overall business risk profile of the group. Despite debt funded acquisition; financial risk profile of the group is expected to remain strong with net debt of around Rs 250 crores at a consolidated level by end of this fiscal, healthy leverage levels, strong debt protection metrics and strong liquidity supported by cash and liquid investments likely to remain around Rs 200 crores at standalone GEL level by end of current fiscal.

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 Gokaldas Exports Limited (GEL) and its wholly owned subsidiaries, All Colour Garments Private Limited, SNS Clothing Private Limited, Vignesh Apparels Private Limited, Gokaldas Exports Acharpura Private Limited, Gokaldas Exports FZCO, Nava Apparel LLC-FZ and its stepdown subsidiaries Amibros S.A (operates in Dubai, under trade name Atraco), Atraco Logistics LLC and Ashton Mombasa Apparel LLC, Kenya. This is because all these entities, together referred as 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

Strength:

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 from operations Rs.2222 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 1015 crore for HI FY24. Post acquisition of the Atraco Group and synergies expected to pan out in the coming quarters, operating performance is expected to further improve during the medium term.

Comfortable working capital cycle: Gross current assets were at 85-150 days over the three fiscal ended March 31, 2023 driven by 20-30 days of receivables and around 55 days of inventory. Gross current assets are expected to remain around 130-140 days over the medium term, despite the acquisition, 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 46% 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%. Post the acquisition; with complementary product, customer and geography profile of the Atraco group, operations are expected to get more diversified and the diversity in geographical reach and clientele should continue to support the business risk profile of the group.

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 0.48 as on 31st March 2023. Post the acquisition, which was funded by around Rs 332 crores of debt (USD 40 million), leverage levels are expected to moderately increase; however expected to remain healthy 0.5-0.6 times in fiscal 2024 and improve over the medium term. GEL's debt protection measures have also been strong with interest coverage and net cash accrual to total debt (NCATD) ratio being healthy at 10.53 times and 6.90 times for fiscal 2023 and likely to remain strong over the medium term.

Weakness:

Presence in a highly fragmented industry: The industry is highly fragmented and competitive, with large number of medium and large 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 of moderate entry barriers and moderate 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 unfavorable 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 3.4 percent (Overall working capital limit of Rs 345 crores) for the past twelve months ended September 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 over Rs 500 crore as on September 30, 2023 and likely to remain around Rs 200 crore post acquisition. Net debt, post acquisition, is expected at Rs 250 crore for the group by this fiscal end. Low leverage levels, large net cash accruals, un-availed working capital lines and unencumbered cash and liquid assets supports liquidity profile.

Outlook: Positive

CRISIL Ratings believes the group's business risk profile and overall credit profile is expected to improve backed by inherent strength in GEL's business and synergies arriving out of the acquisition just concluded.

Rating Sensitivity Factors**Upward factor**

- Sustained improvement in scale of operations and operating margins above 10% supported by completion and stabilization of the acquisition process
- Sustenance of healthy working capital cycle and strong financial risk profile

Downward factor

- Subdued revenue growth due to weaker demand or due to delay in stabilization of the acquisition or operating margins falling below 9% constraining the business risk profile
- Higher than expected debt or stretch in working capital cycle weakening 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	2,222.20	1,790.32
Reported profit after tax	Rs.Crore	172.97	117.08
PAT margins	%	7.78	6.54
Adjusted Debt/Adjusted Networkth	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 instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Levels	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 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
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

Ambiros S.A	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 LLC, Kenya	100%	Under a common management, Significant business and operational and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	420.0	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		--	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	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
Working Capital Facility	100	HDFC Bank Limited	CRISIL A/Positive

Criteria Details

Links to related criteria
Rating criteria for manufacturing 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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