

Press Release

Golden Apparels Exports Private Limited

May 11, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 19.52 Cr.
Long Term Rating	SMERA A-/Stable (Assigned and Reaffirmed)
Short Term Rating	SMERA A2+ (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed long-term rating of **'SMERA A-' (read as SMERA A minus)** and short term rating of **'SMERA A2+' (read as SMERA A two plus)** on the Rs. 16.12 crore bank facilities of Golden Apparels Exports Private Limited (GAEPL). Further, SMERA has assigned **'SMERA A-' (read as SMERA A minus)** on the Rs.3.40 crore proposed bank facility of Golden Apparel Exports Private Limited (GAEPL). The outlook is **'Stable'**.

Golden group (GG), established in the year 1950 is engaged in the manufacture of terry towel, mink blankets, polar blanket, carpets and retail business. GG comprises of Golden Floor Furnishing Private Limited, Golden Terry Towel Private Limited, Golden Texo Fabs Private Limited, Golden Apparels Exports Private Limited and Golden International Private Limited. GG is promoted by Mr. Narain Das Chugh and has presence of over six decades in the textile industry. The group has 14 manufacturing units located at Panipat, Haryana with a combined installed capacity of 46,720 Metric tonnes per annum (MTPA).

List of key rating drivers and their detailed description

Strengths:

Established presence in the textile industry

GG was established in 1950 by Panipat based Chugh family. The group is engaged in manufacturing of terry towel, mink blankets, polar blanket, carpets and also engaged in retail business. The group provides wide range of home textile products including curtains, cushion covers, Designer Sheets, Bed Sheets, Blankets, Bath Mats and Towels etc. The group is among top five manufacturers of terry towel and one of the largest mink blanket manufacturers in India.

The group has more than 2 million Sq. ft. of manufacturing space across 14 locations in Panipat, Haryana and also 60,000 Sq. ft. of retail space located in Panipat, Haryana. The group exports its products to more than 50 countries across five continents and exports contribute around 20 percent of its total sales. The group client list includes reputed names such as Calvin Klein Home USA, K-Mart Australia Limited among others with most of the international players concentrated in Australia followed by South Africa, Israel and USA. In the domestic market, the group supplies to wide network of distributors spread across all over the country. Besides manufacturing for other brands, GG also sells in the domestic market under the brand name "Golden". SMERA expects that the extensive experience of the promoters will fortify the business risk profile of the group over the medium term.

Healthy revenue growth on the back of established domestic and overseas presence

GG has reported operating income of Rs. 538.86 crore for FY 2016 as against Rs. 484.20 crore in FY 2015 and Rs. 389.64 crore in FY 2014. Golden group has reported healthy compound annual growth rate of 16 percent during the four years ending in FY2016. Further, GG has reported revenue of Rs.658.04 crore (provisional) during FY2017. The net cash accruals of the group stood at Rs. 38.43 crore for FY 2016 as against Rs. 36.41 crore in the previous year.

The growth in revenue is on account of continuous augmentation alongwith healthy utilization of capacity (~94 percent) and steady demand. The group has ongoing capex plan in Golden Texo Fabs Private Limited and Golden Terry Towel Private Limited which is expected to be completed by September, 2017. Post commissioning of the expanded capacity; GG's consolidated capacity is expected to increase from 46,720 MTPA to 54,500 MTPA. Going forward, SMERA expects the GG to benefit from strong demand in the domestic home textile segment which is expected to grow at a CAGR of 8 percent from 2011 till 2021.

Healthy financial risk profile

The group's financial risk profile continues to remain healthy marked by networth of Rs.124.75 crore as on 31st March, 2016 as compared with Rs. 107.69 crore as on 31st March, 2015. The gearing stood at 1.59 times as on 31st March, 2016 as against 1.70 times in the previous year. The total borrowings of Rs. 198.22 crore as on 31st March, 2016 comprises of long term borrowings to the tune of Rs. 108.12 crore and short term borrowings of Rs. 90.08 crore. The interest coverage ratio (ICR) of the group stood at 4.06 times in FY16 as compared to 3.64 times in FY15. DSCR stood at 1.92 times in FY 16 as compared to 1.99 times in FY15.

In FY2017, GG had undertaken capex of Rs. 45.80 crore which was part funded by debt of Rs. 34.71 crore. Further, GG has ongoing debt funded expansion capex plan of Rs. 53.26 crore which will lead to additional debt of Rs. 39.59 crore in FY 2018. SMERA expects moderation in the debt protection metrics of the group over the near term, however the overall financial metrics will continue to remain healthy for rating category.

Weaknesses:

Susceptible to volatility in raw material prices and foreign exchange fluctuation risk

The main raw material purchased by the company is cotton and polyester yarn. Hence the group's margins are susceptible to changes in cotton and polyester yarn prices. Cotton being an agricultural commodity, the availability and price of the same is highly dependent on agro-climatic conditions. The Price of cotton is stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the profitability. Further, the prices of polyester yarn are linked to crude oil price movement. Material cost is 62.53 percent of total operating income in FY16 and 62.79 percent in FY15. Further, the group's business is moderately exposed to fluctuation in foreign exchange rates, as exports constitute ~20 percent of the group revenues in FY2015-16. The EBITDA margin stood at 11.40 percent in FY 2016 as against 12.42 percent in the previous year.

Smara believes that GG should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic and overseas markets.

Intense competition in the textile industry

The group is exposed to intense competition prevalent in the highly fragmented Indian textile industry. The group faces stiff competition from domestic players like Trident Limited, Welspun India Limited, T C Terrytex Limited etc. Further, competition from countries like China, Pakistan and Turkey is intense in the home textiles segment. The group faces stiff competition in both domestic and overseas market from other up and coming nations which attract more business because of their lower production costs, ease-of-doing business and availability of cheap labour.

Analytical approach: SMERA has considered the consolidated the business and financial risk profile of Golden Floor Furnishing Private Limited, Golden Terry Towel Private Limited, Golden Texo Fabs Private Limited, Golden Apparels Exports Private Limited and Golden International Private Limited together referred to as the Golden Group. The consolidation is due to the common promoters, shared brand name, significant cash flow fungibility within the group.

Applicable Criteria

Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Default Recognition - <https://www.smera.in/criteria-deafult.htm>

Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Consolidation of Companies - <https://www.smera.in/criteria-consoldation.htm>

Outlook: Stable

SMERA believes the outlook on golden group will remain stable over the medium term on account of the promoter's extensive experience and established presence in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significant lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or debt protection metrices of the group.

About the Rated Entity –Key Financials

For FY2015-16, Golden group has reported profit after Tax (PAT) of Rs. 16.22 crore on operating income of Rs. 538.86 crore as against PAT of Rs. 15.63 crore on operating income of Rs. 484.20 in the previous year. The net worth stood at Rs. 124.75 crore as on March 31, 2016 as against Rs. 107.69 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY 2018			FY 2017		FY 2016		FY 2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	5.75	SMERA A-/Stable (Reaffirmed)	-	-	January 21, 2016	SMERA A-/Stable (Assigned)	-	-
Term Loan	LT	9.87 (reduced from Rs. 13.27 crore)	SMERA A-/Stable (Reaffirmed)	-	-	January 21, 2016	SMERA A-(Assigned)	-	-
Bank Guarantee	ST	0.50	SMERA A2+ (Reaffirmed)	-	-	January 21, 2016	SMERA A2+ (Assigned)	-	-
Proposed Fund Based Facility	LT	3.40	SMERA A-/Stable (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A.	5.75	SMERA A-/Stable (Reaffirmed)
Term Loan	N.A	N.A	March, 2019	9.87 (reduced from Rs. 13.27 crore)	SMERA A-/Stable (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A.	0.50	SMERA A2+ (Reaffirmed)
Proposed Fund Based Facility	N.A	N.A	N.A.	3.40	SMERA A-/Stable (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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