



Press Release
GOODWILL FABRICS PRIVATE LIMITED
December 07, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.11	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	43.89	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 50.00 Cr bank facilities of Goodwill Fabrics Private Limited (GFPL). The outlook is '**Stable**'.

Rationale for the rating

The rating assigned takes into account the experience of the management of more than three decades in the garments manufacturing industries and the steady business risk profile marked by steady improvement in scale of operations and operating margins. The rating also derives comfort from the favourable financial risk profile of the company marked by conservative capital structure and comfortable level of coverage indicators (ICR: 5.79 times and DSCR: 4.06 times as on March 31, 2023). The adequate liquidity position as reflected in the low utilisation of working capital limits at ~60 per cent for last six months Oct'23, further supports the rating. The rating however remains constrained by the working capital-intensive nature of operations of the company marked by GCA days of 155 days as on March 31, 2023. Further, the ratings factor in the vulnerability of the company's profitability to fluctuations in the foreign currency exchange rates, although the same is mitigated by the forward contracts. Acuite notes the sensitivity of revenues and profitability of the players, including GFPL, in the export-oriented business, to the regulatory risks such as changes in the duty structure, rate of export incentives etc.

About the Company

Incorporated in 1995 in Bhilwara, Rajasthan, Goodwill Fabrics Private Limited (GFPL) is the manufacturer and exporter of all kinds of knitted/woven readymade garments for men and women with a status of One Star Export House. The current directors of the company are Mr. Radhey Shyam Baheria and Mr. Rajendra Baheria.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of GFPL to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The company has a long operational track record of over three decades. Further, the promoters have extensive experience in the garments manufacturing industry. The presence of around three decades in the garment manufacturing business has enabled the promoters to establish a strong clientele base in USA, Europe and Australia. Acuite believes that long track record of operations and extensive experience of the management shall support the business risk profile to an extent.

Steady business risk profile

The operating income of the company increased to Rs.135.96 Cr in FY2023 as against Rs.91.61 Cr in FY2022, thereby registering an y-o-y growth of ~48 per cent on account of favourable export market conditions. Furthermore, the company has achieved a revenue of Rs.83.97 Cr in Apr'23-Oct'23.

The operating margin of the company stood at 7.65 per cent in FY2023 as against 7.39 per cent in FY2022. The PAT margin improved to 4.08 per cent in FY2023 as compared to 3.82 per cent in FY2022.

Sustenance of operating margins while increasing its scale of operations will remain a key monitorable.

Healthy financial risk profile

The company's financial risk profile is healthy marked by comfortable net worth base, low gearing and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.46.06 Cr as on March 31, 2023 from Rs.40.51 Cr as on March 31, 2022, due to accretion of profits to reserves. Gearing stood below unity at 0.64 times as on March 31, 2023 as against 0.75 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.85 times as on March 31, 2023 as compared to 0.94 times as on March 31, 2022. Moreover, the comfortable debt protection metrics is marked by Interest Coverage Ratio of 5.79 times as on March 31, 2023 as against 6.25 times as on March 31, 2022; and Debt Service Coverage Ratio at 4.06 times as on March 31, 2023 as against 2.63 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.23 times as on March 31, 2023 as against 0.15 times as on March 31, 2022.

Acuite believes that going forward the financial risk profile of the company is likely to be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The company has a working capital-intensive nature of operations marked by improved but high GCA days of 155 days in FY2023 as against 218 days in FY2022 on account of high debtor collection period. Though the debtor period has improved in FY2023, it still stood high at 70 days in FY2023 as compared to 95 days in FY2022. Further, the inventory period has improved to 42 days in FY2023 as compared to 65 days in FY2022. Acuite believes that the working capital requirement is likely to remain at similar levels in the near to medium term considering the moderate level of inventories and high level of debtors.

Exposed to volatile raw material prices, demand trends in key export markets and forex rates

Similar to other apparel exporters, GFPL's profitability is vulnerable to volatility in raw material prices, which have historically accounted for ~40-50% of the cost of goods sold. Further, GFPL's profitability is exposed to the volatility in foreign currency exchange rates as most of its revenue is dominated by exports, though partly mitigated by the hedging practice through forward contracts.

Rating Sensitivities

- Improvement in operating income and profitability margins.
- Further elongation of working capital cycle.

All Covenants

None.

**Liquidity Position
Adequate**

The company has an adequate liquidity position marked by net cash accruals of Rs.6.73 Cr as against long term debt repayment of only Rs.0.30 Cr over the same period. Further, the company is expected to generate sufficient net cash accruals to repay its debt obligation in near to medium term. The current ratio stood comfortable at 1.75 times as on March 31, 2023 as compared to 1.58 times as on 31st March, 2022. Further, the fund-based limits remained moderately utilized at 60.17 per cent for six months ended October 2023. The cash and bank balances of the company stood at Rs.7.18 Cr as on March 31, 2023. However, the working capital-intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 155 days in FY2023 as compared to 218 days in FY2022. Acuité believes that going forward the company is likely to maintain adequate liquidity position on account of steady accruals.

Outlook: Stable

Acuité believes the outlook on GFPL will remain 'stable' over the medium term backed by experience of its promoters and above average financial risk profile. The outlook may be revised to 'Positive' in case of sustained growth in revenue while achieving significant improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	135.96	91.61
PAT	Rs. Cr.	5.55	3.50
PAT Margin	(%)	4.08	3.82
Total Debt/Tangible Net Worth	Times	0.64	0.75
PBDIT/Interest	Times	5.79	6.25

Status of non-cooperation with previous CRA (if applicable)

Crisil vide its press release dated 2nd August 2023, had downgraded the company to CRISIL BB+/Stable/A4+; Issuer Not Cooperating.

ICRA vide its press release dated 21st April 2023, had rated the company to ICRA B+/Stable/A4; Issuer Not Cooperating.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A3+ Assigned
Bank of Baroda	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.89	ACUITE A3+ Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.11	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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