

February 20, 2015

| Facility           | Amount<br>(Rs. Crore) | Rating                              |
|--------------------|-----------------------|-------------------------------------|
| <b>Cash Credit</b> | <b>12.00</b>          | <b>SMERA BB-/ Stable (Assigned)</b> |

SMERA has assigned a rating of '**SMERA BB-**' (read as SMERA double B minus) to the abovementioned bank facility of Gajiwala Sarees (GS). The outlook is '**Stable**'. The rating is supported by the firm's experienced management. The rating is also supported by the strong revenue growth registered by the firm. However, the rating is constrained by the firm's weak profitability, working capital-intensive operations and moderate financial risk profile. The rating is also constrained by the susceptibility of the firm's profit margins to volatility in raw material prices. The rating notes that the firm is exposed to intense competition in the textile industry.

GS, established in 2003, is a Surat-based partnership firm engaged in manufacturing of bridal and festive apparels. GS benefits from its experienced management. Mr. Vikram Gajiwala and Mrs. Sweety Gajiwala, partners of GS, have around ten years of experience in the textile industry. GS's revenue increased from Rs.23.89 crore in FY2012-13 (refers to financial year, April 01 to March 31) to Rs.85.12 crore in FY2013-14 on the back of acquisition of new customers.

GS's weak profitability is reflected in net profit margin of 0.87 per cent in FY2013-14. The firm's operations are working capital-intensive. GS's collection period has increased from 85 days in FY2012-13 to 120 days in FY2013-14. The firm's average payables period increased from 97 days in FY2012-13 to 128 days in FY2013-14. GS's average utilisation of cash credit limit was high at 80 per cent during July 2014 to January 2015. The firm's moderate financial risk profile is marked by debt-to-capital ratio of 3.01 times as on March 31, 2014 and interest coverage ratio of 1.83 times in FY2013-14. GS's total debt of Rs.14.16 crore (as on March 31, 2014) includes Rs.6.63 crore of interest-bearing unsecured loans (subordinated to bank debt) from promoters and relatives.

GS's profit margins are highly susceptible to volatility in raw material prices as raw material cost accounts for ~63 per cent of the firm's total cost of sales. GS operates in a highly fragmented and competitive segment of the textile industry.

### Outlook: Stable

SMERA believes GS will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers strong growth in scale of operations while achieving healthy profitability and efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of stretch in the firm's working capital cycle.

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### About the firm

GS was initially established as proprietorship concern in 2003. The firm was later converted into a partnership entity in 2009. GS is engaged in manufacturing of bridal and festive apprals. The firm outsources the stitching, embroidery and embellishment work.

For FY2013-14, GS reported profit after tax (PAT) of Rs.0.74 crore on operating income of Rs.85.12 crore, as compared with PAT of Rs.0.19 crore on operating income of Rs.23.89 crore in FY2012-13. The firm's net worth stood at Rs.4.70 crore as on March 31, 2014, as compared with Rs.1.34 crore a year earlier.

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