



SMERA RATINGS LIMITED

**Gokul Knitt Fabs
(GKF)****Rating
Rationale****April 13, 2015**

Facilities	Amount (Rs. Crore)	Ratings
Term Loan 1	0.80	SMERA B+/Stable (Reaffirmed)
Term Loan 2	3.69	SMERA B+/Stable (Assigned)
Packing Credit Limit	2.65	SMERA A4 (Reaffirmed)
Foreign Documentary Bills Negotiation under Letter of Credit (FDBN/FDBP/FDBD)	6.00 (enhanced from Rs.3.00 crore)	SMERA A4 (Reaffirmed)
Forward Purchase Contract	6.00 (enhanced from Rs.3.00 crore)	SMERA A4 (Reaffirmed)

SMERA has reaffirmed the ratings of '**SMERA B+/Stable/SMERA A4**' on the Rs.15.45 crore (enhanced from Rs.9.45 crore) bank facilities of Gokul Knitt Fabs (GKF). SMERA has also assigned a long-term rating of '**SMERA B+/Stable**' to the Rs.3.69 crore bank facility of GKF. The ratings remain constrained by the firm's small-scale operations. The ratings are also constrained by the firm's exposure to customer concentration risk amidst intense competition in readymade garments industry. The ratings note that the firm's profit margins are exposed to raw material price volatility. Moreover, the firm's financial profile is susceptible to withdrawal of capital. The aforementioned weaknesses are partially offset by the extensive experience of the firm's management.

Update

GKF reported profit before tax (PBT) of Rs.0.42 crore on revenue of Rs.22.25 crore in FY2013-14 (refers to financial year, April 01 to March 31), as against PBT of Rs.0.38 crore on revenue of Rs.17.12 crore in FY2012-13. The firm registered revenue of ~Rs.18.00 crore (provisional) during April 2014 to February 2015.

GKF remains exposed to customer concentration risk arising from high dependence on a single client viz. Vetir S.A, France. The firm faces intense competition from several players in the readymade garments industry. GKF has undertaken capex of ~Rs.4.92 crore towards capacity expansion (purchase of cutting machine, sewing machine and printing machine). The new capacity is likely to be operational by May 2015. GKF's ability to generate healthy cash flows post commissioning of the new capacity is a key rating sensitivity.

GKF's profit margins remain susceptible to volatility in raw material prices given the high proportion of raw material cost to total sales (~65.30 per cent in FY2013-14). GKF's capital stood at Rs.3.13 crore as on March 31, 2014, as compared with Rs.0.88 crore a year earlier.

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**Outlook: Stable**

SMERA believes GKF will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. GKF's ability to scale up operations while achieving healthy profit margins and comfortable liquidity position is a key rating sensitivity.

About the firm

GKF, established in 2005, is a Tamil Nadu-based partnership firm promoted by Mr. R. Mohan Kumar and Mr. R. Balachandran. GKF is engaged in manufacturing and export of readymade garments. The firm primarily caters to retailers based in France, Germany, Netherlands and United Kingdom.

GKF has a manufacturing unit in Tirupur (Tamil Nadu). The partners of the firm have around 20 years of experience in the readymade garments industry.

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