

**March 31, 2016**

| Facilities | Amount (Rs. Crore) | Ratings |
|---|-----------------------|------------------------------|
| Term Loan I | 0.80 | SMERA B+/Stable (Reaffirmed) |
| Term Loan II | 3.69 | SMERA B+/Stable (Reaffirmed) |
| Packing Credit Limit | 2.65 | SMERA A4 (Reaffirmed) |
| Foreign Documentary Bills Negotiation under Letter of Credit (FDBN/FDBP/FDBD) | 6.00 | SMERA A4 (Reaffirmed) |
| Forward Purchase Contract | 6.00 | SMERA A4 (Reaffirmed) |

SMERA has reaffirmed the long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.19.14 crore bank facilities of Gokul Knitt Fabs (GKF). The ratings remain constrained by the firm's small-scale of operations and exposure to customer concentration risk amidst intense competition in the readymade garments industry. The ratings also continue to be constrained by the susceptibility of profit margins to volatility in raw material prices and inherent risk of capital withdrawal. However, the aforementioned weaknesses are partially offset by the extensive experience of the management.

Update

GKF's operating margins improved to 8.74 per cent in FY2015 as compared to 6.61 per cent in FY2014 despite decline in revenue mainly due to fall in material cost. Further, the PAT margin for the firm improved to 3.51 percent in FY2015 as against 1.89 percent in FY2014 on account of improvement in operating margin and other income of Rs.0.21 crore earned by the firm in FY2015.

Rating Sensitivity Factors

- Increasing scale of operations while maintaining liquidity position
- Stable profit margins

Outlook: Stable

SMERA believes that GKF will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its established track record of operations and experienced management. The outlook may be revised to 'Positive' if the firm registers substantial increase in scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case it fails to achieve the projected scalability in revenues amidst intensifying competition in the industry or if the financial risk profile of the firm deteriorates.

SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.



SMERA RATINGS LIMITED

Gokul Knitt Fabs (GKF)

*Rating
Rationale*

About the Firm

GKF, established in 2005, is a Tamil Nadu-based partnership firm promoted by Mr. R. Mohan Kumar and Mr. R. Balachandran. The firm is engaged in the manufacture and export of readymade garments and 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.

For FY2014–15, GKF reported net profit of Rs.0.77 crore on net sales of Rs.21.95 crore as compared with profit after tax of Rs.0.42 crore on net sales of Rs.22.25 crore in the previous year.

Contact List:

| Media/Business Development | Analytical Contact | Rating Desk |
|--|---|--|
| Mr. Suman M National Sales Head – Emerging Corporate Group Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in | Mohit Jain Vice President – Rating Operations Tel: +91-22-6714 1105 Email: mohit.jain@smera.in | Tel: +91-22-6714 1184 Email: ratingdesk@smera.in |

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