

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.

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.

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