

Press Release

Fashion Knits

February 27, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 37.53 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 37.53 crore bank facilities of Fashion Knits. The outlook is '**Stable**'.

FS established in 1991 is a Tamil Nadu-based partnership concern engaged in the manufacturing of knitted garments.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced partners**

FK, established in 1991, is a partnership firm engaged in the manufacturing of knitted garments. The partners, Mr. Ravi and Mr. Ramu possess more than two decades of experience in the textile industry.

- **Moderate scale of operations**

The group revenue improved to Rs.126.86 cr in FY2015-16 from Rs.112.97 cr in FY2014-15. Further, the group achieved ~Rs.100.00 cr from April 2016 - December 2016. The order book position stands at Rs.45.00 cr as on January 2017.

- **Healthy profit margins**

The operating margin improved to 9.37 per cent in FY2015-16 compared to 9.10 per cent in FY2014-15 on account of decline in raw material prices and foreign exchange gain of Rs.1.23 cr. Further, the profit after tax (PAT) improved to 2.01 percent in FY2015-16 from 1.45 percent in FY2014-15.

Weaknesses

- **Moderate financial risk profile**

The group has moderate financial risk profile marked by net worth of Rs.35.17 cr and gearing (debt-equity ratio) of 1.69 times as on March 31 2016 compared to net worth of Rs.31.66 cr and gearing of 1.74 times as on March 31 2015. The interest coverage ratio (ICR) improved to 1.85 times in FY2015-16 from 1.52 times in FY2014-15.

- **Working capital intensive operations**

The group's operations are working capital intensive marked by gross current asset (GCA) days of 209 in FY2015-16 (PY: 227 days). Further, the working capital fund has been fully utilised.

- **Susceptibility of profit margins to fluctuations in raw material prices and forex rates**

The operating margins are susceptible to volatility in raw material prices. The group is also exposed to foreign exchange fluctuation risk.

- **Highly competitive and fragmented industry**

The group operates in a highly competitive and fragmented textile industry.

Analytical Approach

SMERA has consolidated the business and financial risk profiles of R R Dyeing (RRD), R R Knitting & Sons (RRKS) and Fashion Knits (FS) - the three partnership firms referred to as the R R Group on account of similarity in the lines of business, financial fungibility and common management.

Outlook: Stable

SMERA believes that the group will continue to maintain a 'Stable' outlook in the medium term owing to the extensive experience of its partners. The outlook may be revised to 'Positive' if the group achieves sustained improvement in profit margins and maintains healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or deterioration in the capital structure or coverage indicators.

About the Group

The R R Group is a Tamil Nadu-based group engaged in the dyeing and printing of grey cloth and manufacturing of knitted garments. The group comprises three firms viz. R R Dyeing (RRD), R R Knitting & Sons (RRKS) and Fashion Knits (FK). The group exports majorly to Europe.

About the Rated Entity - Key Financials

FS established in 1991 is a Tamil Nadu-based partnership concern engaged in the manufacturing of knitted garments. The operations include purchasing yarn, converting the same into grey cloth, dyeing fabrics and stitching. The firm outsources dyeing to its group company - R R Dyeing. On consolidated basis, the R R Group reported profit after tax (PAT) of Rs.2.55 cr on operating income of Rs.126.86 cr as compared to PAT of Rs.1.63 cr on operating income of Rs.112.97 cr in the previous year. The net worth stood at Rs.35.17 cr as on March 31 2016 against Rs.31.66 cr a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
31-Jul-2015	Term Loan	Long Term	INR 1.64 CR	SMERA BB / Stable
	Packing Credit	Short Term	INR 28 CR	SMERA A4+
	Bill Discounting	Short Term	INR 6 CR	SMERA A4+

Foreign Letter of Credit	Short Term	INR 1.89 CR	SMERA A4+
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	1.64	SMERA BB / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A4+
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	28.00	SMERA A4+
Forward Cover limits	Not Applicable	Not Applicable	Not Applicable	1.89	SMERA A4+

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ABOUT SMERA

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