

Press Release

Gg Fashions

March 31, 2017

Rating Downgraded

| | |
|-------------------------------------|---------------------------|
| Total Bank Facilities Rated* | Rs. 14.66 Cr. |
| Long Term Rating | SMERA B / Outlook: Stable |
| Short Term Rating | SMERA A4 |

* Refer Annexure for details

Rating Rationale

SMERA has downgraded long-term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 14.66 crore bank facilities of Gg Fashions. The outlook is '**Stable**'.

GG Fashions (GGF) is a proprietorship firm established in 1990 by Mr. Kannan. The firm is engaged in the manufacturing of cotton fabric at Salem, Tamil Nadu.

Key Rating Drivers

Strengths

- Long operational track record and experienced management**

GGF is a proprietorship firm established in 1990 by Mr. Kannan (proprietor) who possesses more than two decades of experience in the aforementioned line of business.

- Moderate revenue growth**

The firm's revenue increased to Rs. 45.32 cr in FY2015-16 from Rs. 41.02 cr in FY2014-15. The firm registered Rs.33.00 cr from April 2016 - December 2016. The current order in hand stands at Rs. 6.77 cr.

- Healthy profit margins**

The EBITDA margins stood healthy registering 8.69 percent in FY2015-16 as against 8.87 percent in FY2014-15. The PAT margin stood at 2.07 per cent in FY2015-16 and 2.51 per cent in FY2014-15.

Weaknesses

- Average financial risk profile**

The firm's average financial risk profile is marked by debt-equity ratio (gearing) of 2.28 times as on March 31, 2016 compared to 2.45 times as on March 31, 2015. The interest coverage ratio stood at 1.73 times in FY2016. The net worth of the firm stood at Rs.9.34 cr as on March 31, 2016.

- Customer concentration risk**

The rating is constrained by high customer concentration risk. The firm generates 80 per cent of revenue from Shahi Exports Private Limited.

- Working capital intensive operations**

The firm's operations are working capital intensive reflected in the increase of Gross current asset days to 166 days in FY2016. This is mainly on account of high inventory holding of 88 days. The cash credit facility is overdrawn due to the weak liquidity of the firm.

- Risk of capital withdrawal**

Being a proprietorship firm, GGF is exposed to the inherent risk of withdrawal of capital.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of GG Fashion to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on GGF's rated facilities will remain stable over the medium term on account of its experienced management and established presence in the textile industry. The outlook may be revised to 'Positive' if the firm demonstrates resilient performance with improvement in liquidity profile through a comfortable working capital cycle. Conversely, the outlook maybe revised to 'Negative' in case of deterioration in the capital structure and profit margins.

About the Rated Entity - Key Financials

For FY2015-16, GGF reported profit after tax (PAT) of Rs. 0.94 cr on operating income of Rs.45.32 cr as compared with PAT of Rs.1.03 cr on operating income of Rs.41.02 cr for FY2014-15. The net worth as on 31 March 2016 stood at Rs.9.34 cr as compared to Rs. 8.51 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>
- 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)

Not Applicable

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-----------------------------|------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 2.40 | SMERA B / Stable |
| Working capital demand loan (WCDL) | Not Applicable | Not Applicable | Not Applicable | 9.60 | SMERA B / Stable |
| Term loans | Not Applicable | Not Applicable | 31-Mar-2017 | 2.47 | SMERA B / Stable |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.09 | SMERA A4 |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 0.10 | SMERA B / Stable |

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