



SMERA RATINGS LIMITED

Knitcraft Apparels International Private Limited

Rating Rationale

February 18, 2014

Facilities	Amount (Rs. Crore)	Rating
Packing Credit Limit (PCL)	14.00 *	SMERA A4+/(Assigned)
FDBP/FUDBP	6.00 *	SMERA A4+/(Assigned)
Bank Guarantee	0.50	SMERA A4+/(Assigned)
Forward contract exposure	0.80	SMERA A4+/(Assigned)
Short Term Limit	1.38	SMERA A4+/(Assigned)

* Packing credit and bill discounting facility are interchangeable

SMERA has assigned a rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.22.68 crore short-term bank facilities of Knitcraft Apparels International Private Limited (KA IPL). The rating is constrained by the susceptibility of the company's profit margins to raw material price volatility and intense competition prevalent in the readymade garments industry. The rating is also constrained by the company's declining net profit margin and deteriorating return on capital employed. The rating factors in the risks associated with the company's high leverage. However, the rating is supported by the company's long track record of operations, experienced management and reputed clientele.

KA IPL is a Delhi-based company engaged in manufacturing and export of readymade garments since around two decades. KA IPL faces intense competition from several players in the garment manufacturing industry. The company's profit margins are exposed to volatility in raw material (fabric) prices. KA IPL's net profit margin declined from 2.6 per cent in FY2011-12 (refers to financial year, April 01 to March 31) to 1.90 per cent FY2012-13. The company's return on capital employed (RoCE) deteriorated from 17.21 per cent in FY2011-12 to 13.25 per cent in FY2012-13. KA IPL's leverage is high at 3.12 times as on March 31, 2013.

KA IPL benefits from its experienced management. The company's promoters have over two decades of experience in the readymade garments industry. KA IPL has long-standing relationships with various reputed customers, including Polo Ralph Lauren Corporation (USA), Marks Work Wearhouses (Canada), Superdry (UK) and VF Group (USA).

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*Rating
Rationale*

Rating sensitivity factor

- Improvement in leverage position and profit margins

About the company

KAIPL was incorporated in 2007 to takeover running business of Knitcraft Apparels International, a partnership firm established in 1985. KAIPL is engaged in manufacturing of readymade garments. The company has four manufacturing units, including three manufacturing units in Gurgaon (Haryana) and one manufacturing unit in Delhi. KAIPL is setting up a new manufacturing unit in Palwal (Haryana). The company has integrated operations with in-house knitting and dyeing facilities. KAIPL's installed manufacturing capacity stands at ~4 million pieces per annum. The overall operations of the company are managed by Mr. Krishan Kumar Khurana, Mr. Sanjay Khurana, Mr. Sandeep Khurana, Ms. Sarita Khurana, Ms. Indu Khurana and Mr. Sanchit Khurana.

For FY2012-13, KAIPL reported net profit of Rs.2.05 crore on total income of Rs.107.84 crore, as compared with net profit of Rs.3.04 crore on total income of Rs.119.31 crore for FY2011-12. Further, the company registered gross revenues of Rs.101.65 crore (provisional) during April 2013 to December 2013. KAIPL's net worth stood at Rs.15.73 crore as on March 31, 2013, as compared with Rs.13.71 crore a year earlier.

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