

March 28, 2014

Facility	Amount (Rs. Crore)	Rating
Export Packing Credit	5.00	SMERA A4 (Assigned)

SMERA has assigned a short-term rating of '**SMERA A4' (read as SMERA A Four)** to the to the above-mentioned bank facility of Kanchan International (KI). The rating is constrained by the firm's small scale of operations, moderate net profit margin, low coverage indicators and high gearing (debt-to-equity ratio). The rating is further constrained by the firm's exposure to foreign exchange fluctuation risk and geographical concentration risk amidst intense competition prevalent in the garments industry. However, the rating is supported by the firm's experienced management.

KI, established in 1980, is a Delhi-based proprietorship firm engaged in manufacturing and export of readymade garments. KI has small-scale operations reflected in net sale of Rs.7.87 crore in FY2012-13 (refers to financial year, April 01 to March 31). The firm's net profit margin is moderate at 1.60 per cent in FY2012-13. Moreover, KI's net profit (of Rs.0.13 crore in FY2012-13) is largely supported by foreign exchange gain of Rs.0.73 crore. The firm's interest coverage ratio is low at 1.34 times in FY2012-13. KI's gearing (debt-to-equity ratio) is high at 3.39 times as on March 31, 2013. The firm's profit margins are susceptible to unfavorable changes in foreign exchange rates. Further, KI is also exposed to geographical concentration risk as all of the firm's customers are based in Dubai.

KI faces intense competition from several players in the unorganized sector of readymade garments industry. However, the firm benefits from its experienced management. Mr. K. L. Singhal, proprietor of KI, has 33 years of experience in the readymade garments industry.

Rating sensitivity factors

- Increase in scale of operations
- Improvement in the profit margins (without any support of foreign exchange gain)
- Geographical diversification

About the firm

KI, established in 1980, is a Delhi-based proprietorship firm promoted by Mr. K. L. Singhal. KI is engaged in manufacturing and export of readymade garments.

For FY2012-13, KI reported PAT of Rs.0.13 crore on operating income of Rs.7.87 crore, as compared with PAT of Rs.0.19 crore on operating income of Rs.13.00 crore for FY2011-12. The firm's net worth stood at Rs.1.15 crore as on March 31, 2013, as compared with Rs.1.02 crore a year earlier.

Disclaimer: A 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

Kanchan International (KI)

Rating Rationale

Media/ Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal, VP, Sales (SME) Tel : +91-44-49074501 Cell : +91 9930074009 Email: virendra.goyal@smera.in Web: www.smera.in	Umesh Nihalani Head, Corporate Ratings Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

Disclaimer: A 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.